





# ON THAT DAY"

Nobel Peace Prize winner Malala Yousafzai was shot by the Taliban for going to school. They targeted the wrong girl.

Sam Walton's granddaughter Carrie Walton Penner is the most influential force in public education that you've never heard of. She shares her plan to make charter schools a national option. BY LUISA KROLL

# **EDUCATION**

Can one philanthropist bankroll reform on a citywide scale? BY NATALIE ROBEHMED

# **MOON SHOT**

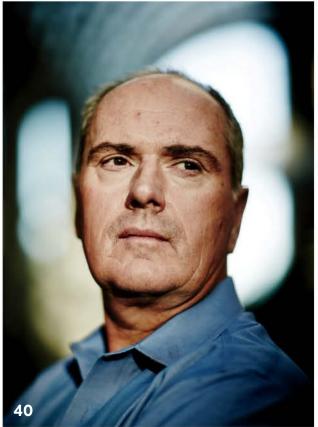
Five big ideas that could make American schoolkids tops in the world.

BY RANDALL LANE

Six of America's most influential educational philanthropists reveal the mathematics of reform. REPORTED BY KERRY A. DOLAN, CHRISTOPHER **HELMAN, LUISA KROLL AND** MICHAEL NOER









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FORBES

# **IN BRIEF**

# Lessons In **Giving**

BY RANDALL LANE

Earlier this year 200 billionaires, social entrepreneurs and government leaders came together in New York City for The Forbes 400 Summit on Philanthropy. Few rooms in 2014 were as collectively powerful—Warren Buffett, Andrew Cuomo, Michael Milken, Laurene Powell Jobs, Paul Tudor Jones, Stephen Schwarzman, Arne Duncan and scores more of similar influence, all there to change the world and, specifically, to supercharge education here and abroad.

For most of the day the star was surely Malala Yousafzai, who, a few months before becoming the youngest Nobel Peace Prize winner ever, dazzled with her articulate vision and resonant character. (She flew overnight both ways from the U.K. in order to miss only a single day of school.) But the show-stealers, as measured in tears in the eye, lumps in the throat and the desire to help more, were still younger: the PS22 Chorus from

Staten Island, N.Y.

Their backstory explains why so many important people felt so engaged. Teacher Gregg "Mr. B." Breinberg recruits his chorus not by vocal gifts but based on who's the most at risk or has untapped potential



(P.S. 22 is Staten Island's largest public school and among its most challenged). Every year he takes musical neophytes and creates a harmony that merges individual expression and teamwork. And every year, while dodging occasional bureaucratic idiocy, he changes their lives with performances at the Academy Awards, the presidential inauguration and the like, demonstrating the fruits of creativity and hard work.

Their achingly beautiful performance reinforced several points: that every kid is born with unlimited potential. And that those of us who have achieved success have an opportunity, and an obligation, to help unlock it. Not just by throwing money at problems but also by applying entrepreneurial skills-problem solving, contrarian thinking, market-based logic—on behalf of others.

This marks our third year creating a special issue around philanthropy, and it's full of ideas and lessons. We're not here to tell you how much to give or where to give. But as you're in a position to leave this world a better place than how you found it, we hope you'll find some inspiration. **(B)** 

# Nice to meet you.

We've changed our name from **WellPoint to Anthem**, the name consumers know us by best. As our companies continue to offer health plans that are right for consumers, we feel that going by a name that people know and trust is important. We're Anthem, nice to re-meet you.



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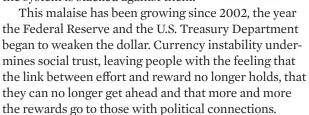
# **FACT & COMMENT — STEVE FORBES**

"With all thy getting, get understanding"

# WHY WE FEEL SO ROTTEN

BY STEVE FORBES, EDITOR-IN-CHIEF

MOST AMERICANS—56%, according to a recent *Wall Street Journal*/NBC News poll—believe the political and economic systems are rigged against them. The survey found this demoralizing malaise cuts across all ages, ethnic groups, professions and political preferences. It also found that a fair number of people who have done well in recent years—those who have high incomes and are well educated—feel the system is stacked against them.



This disenchantment is corrosive and, if not turned around, will lead to ugly political consequences. Leaders here and around the world are utterly oblivious to all of this, especially when it comes to a critical solution: establishing a new gold standard.

# **Answering Obama's Illegal Edict**

**PRESIDENT OBAMA'S** edict on immigration marks the most blatant attempt to subvert the Constitution since Franklin Roosevelt tried to pack the Supreme Court in 1937. Here's how Republicans should respond to this constitutional crisis.

• A resolution. Pass a resolution in January affirming that the Constitution is not a mere scrap of paper, a relic meant only for public viewing in the Smithsonian, like antique airplanes; that the President of the U.S. is not a four-year monarch who rules by decree—who, if Congress doesn't do as he commands, can unilaterally enact



whatever he wishes by issuing an order.

- The courts. This usurpation must be challenged in the courts—all the way to the Supreme Court. Thankfully, this is in train. The state of Texas, which borders Mexico and thus has standing on this matter, is ready to challenge, via lawsuit, our would-be-king President.
- The power of the purse. With control of both the House and the Senate next year, the GOP will be able to specifically deny the necessary funding to carry out

Obama's decrees. It must do so.

• Confirmations. Senator Ted Cruz (R-Tex.) has proposed that the Senate refuse to confirm any Obama nominee, except for those in areas relating to defense, national security, public safety and law enforcement, until the President backs down. No more judges, no more agency officials, no more Cabinet officers. Cruz's colleagues should adopt this approach.

The GOP should also start passing pieces of immigration reform to demonstrate that Republicans are not antiimmigrant but are in favor of commonsensical changes.

- H-1B visas. The high-tech industry desperately needs more highly skilled people. The quota for them is absurdly low, forcing companies to move operations overseas. Remove the cap. Despite speculation, Obama proposed virtually nothing on this. Congress must pass such a reform.
- **Green cards.** The President made noises about green cards, but no specifics were provided. Thousands of foreign students are in the U.S. to earn advanced degrees in science, technology, engineering and math. Then once they do, we foolishly send most of them right back home. Pass legislation that would allow green cards to be embossed on these students' diplomas. There's widespread support for this. A law, not a decree, will guarantee that a future President can't undo it.
- Guest-worker programs. Decades ago we had these programs for agricultural workers. Bring them back for agriculture, construction and any other areas in

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# FACT & COMMENT // STEVE FORBES

which there's a need that can't be filled by people already in the U.S. Such an approach would drastically cut the incentive for illegal immigration. Millions of illegal immigrants would gladly go home if they knew there was a reliable and lawful way for them to come back to take on work for specified periods of time.

- Children of illegal immigrants. Steal a piece of Obama's thunder by enacting a law that would grant resident status to kids whose parents brought them here when they were youngsters. These children shouldn't be punished for the sins of their mothers and fathers.
- Reform of our current immigration system. People who play by the rules often find themselves treated shabbily, shunted from one bureaucrat to another and waiting long periods of time to deal with what should be routine matters. They are punished for behaving lawfully. This is profoundly wrong.

These approaches and reforms, if taken by Republicans, would fatally wound the President's attempt to rewrite the Constitution, while doing the nation an immense good. Public opinion is against the President on this issue. Last summer's spectacle of thousands of children streaming across our borders soured people on the idea of the President making unilateral decisions on immigration.

# **Investment Advice Worth Paying For**

A new book by legendary life coach Tony Robbins, *Money: Master the Game—7 Simple Steps to Financial Freedom* (Simon & Schuster, \$28), will be that rare gift that keeps on giving. Robbins has done a phenomenal amount of research, as well as interviewed notables from John Bogle, creator of the first index fund and founder of the ultra-low-expense Vanguard Group of mutual funds; to David Swensen, who in managing Yale's endowment fund pioneered the art of

asset allocation among various asset classes, which has produced spectacular returns and been widely imitated; to such investing giants as Carl Icahn, Paul Tudor Jones and Ray Dalio.

Remarkably, Robbins has produced a book that will appeal to both the beginner and the most sophisticated money jockey overseeing multibillions of dollars in assets.

He lays out persuasive, commonsense ways in which people can build up their assets. He rightfully targets the plethora of expenses that ruin returns for most individual investors. Even more impressively, Robbins tackles the challenge—one that's even more formidable than losing weight and keeping it off—of allowing emotions to sway your investment decisions. Emotions are the enemy: Individuals pile into the market when stocks are surging and bail out when the market breaks. This is the reason that individual performance in mutual funds not only lags the market but also the funds themselves-shockingly, by a wide margin.

One way to quash performance-ruining, emotion-driven actions is to follow the asset-allocation formula that Robbins pried out of Ray Dalio. It initially looks like a formula for stagnation: stocks, 30% of your portfolio; *long-term* U.S. Treasurys, 40% (that's not a misprint); intermediate Treasurys, 15%; gold, 7.5%; and commodities, 7.5%.

Robbins engages in a productive discussion of annuities, which done right (once again, beware of those countless fees) can be very helpful in providing retirement income. The fairly new fixed-index annuity should be especially appealing to baby boomers.

Another tool to consider: longevity insurance.

Robbins rightfully whacks several financial myths, including target-date funds. And he has sober warnings about potential pitfalls in 401(k)s.

If there were a Pulitzer Prize for investment books, this one would win, hands down.

# **Restaurants:**

# Go, Consider, Stop

Edible enlightenment from our eatery experts and colleagues Richard Nalley, Monie Begley, Randall Lane and Chef Jeff Lamperti, as well as brothers Bob, Kip and Tim.

## Holden & Astor

409 West 13th St. (Tel.: 212-675-2400)
This newcomer serves great food and isn't shy about charging for it. Start with the hamachi crudo with citrus-soy, pickled ramps and radish-jalapeno salad or the tuna tartare. Head for the chicken duo brick-style, or splurge on the tender-beyond-belief special chateaubriand for two. Check out the modern fries before gorging on profiteroles.

# Altesi Ristorante

26 East 64th St. (Tel.: 212-759-8900)

This new Italian with its retro-contemporary décor is a find. Try the beet salad with pistachio and goat cheese balls and orange vinaigrette or the fried calamari and zucchini with mint lemon sauce. Move on to the salmon fillet, whole branzino or roasted crispy chicken in a Lambrusco reduction. End with chocolate cake or the Napoleon, both divine.

## Ivan Ramen

25 Clinton St., between East Houston & Stanton streets (Tel.: 646-678-3859)

Long Island's Ivan Orkin, who has two restaurants in Tokyo, brings a new level of verve to New York ramen. Such offerings as triple pork, triple garlic (pork belly, bacon and pork stock with raw, pickled and roasted garlic) and red chile ramen balance power and elegance.

# Betony

41 West 57th St. (Tel.: 212-465-2400)

Chef Bryce Shuman, formerly of Eleven Madison Park, offers many moments worthy of his provenance: the seared foie gras (paired with pork belly) and the spicy tuna rolls (minced sushi-grade tuna folded into tubular crackers). Both original and delicious. But too many merely "good" dishes and occasionally clunky service keep this from being top tier.

# The Crosby Bar

Crosby Street Hotel, 79 Crosby St., between Spring & Prince streets (Tel.: 212-226-6400)
Afternoon Tea is served all day. The multitiered silver tray is filled with luscious tea cakes, scones with clotted cream and preserves, tiny sandwiches of smoked salmon, egg salad and roast beef. Choose from a menu of 14 teas or infusions. Service is friendly, and you are encouraged to relax and take your time.

# The Gander

15 West 18th St. (Tel.: 212-229-9500)

Chef/owner Jesse Schenker's memoir, All or Nothing (on sale here), details his previous life as an addict. Some of that chaos may explain the uncommon orderliness of this artsy bistro serving upgraded and delicious comfort food with a greenmarket halo: fresh pastas, shepherd's pie, brisket tots, grilled salmon. And choose from a pleasurably arcane wine list.



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# LeaderBoard December 15, 2014



# Leader Board

**SEAT OF POWER** 

# Sanctum Sanctorum

NOBODY IS ALLOWED TO SIT at J.P. Morgan's desk at the Morgan Library in New York, any more than they let the tourists plop down at Thomas Jefferson's drafting table at Monticello. But when America's giant of philanthropy and finance at the beginning of this century is making his first visit to the sanctum of America's giant of philanthropy and finance at the beginning of the last, why not make a little history?

Morgan played a huge role in the early growth of the Metropolitan Museum of Art and the American Museum of Natural History, and gave widely beyond that, often anonymously. But his most enduring contribution to society took place at this very desk, in this very room: his private study for the most powerful decades of his life (his partners on Wall Street called it "the uptown branch"). During the Panic of 1907, Morgan served as a one-man Federal Reserve, rescuing the U.S. financial system by locking dozens of bankers in this library until they committed to bail out two wobbly trusts whose collapse was imminent.

Sitting there now: the one man who 101 years later had both the reputation and the wherewithal to shore up public confidence during another major financial crisis, investing billions in flailing blue chips and banks in the autumn of 2008. Warren Buffett, take a bow. Or, if you prefer, just remain seated.

PHOTOGRAPHED BY MICHAEL PRINCE

"VIRGIN AND CHILD WITH FOUR SAINTS AND A DONOR" (CIRCA 1500)

The painting is attributed to Marco Bello, a pupil of Giovanni Bellini, the Venetian Renaissance master who also taught Titian.



# NET WORTH: \$165 BILLION

Wal-Mart boosts same-store U.S. sales for the first time since early 2013; family earns as much in three weeks as Target's five-year net earnings.



LeaderBoard



ALL FIGURES AT THE TOP OF THIS AND SUBSEQUENT PAGES REPRESENT CHANGES IN WEALTH BETWEEN OCT. 28 AND NOV. 18. SOURCES: INTERACTIVE DATA VIA FACTSET RESEARCH SYSTEMS: FORRES

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\$5.4 BILLION (+42.1%)

# **NEW BILLIONAIRE**

# The Gambler

PokerStars' Mark Scheinberg knew when to walk away—and now there's time enough for countin'.

IN AUGUST a publicly traded Montreal company called Amaya bought Rational Group, the owner of PokerStars and Full Tilt Poker, for \$4.9 billion in cash. (*See story.*) The deal ended a remarkable saga that began in 2001, when Mark Scheinberg, a Canadian born in Israel, founded PokerStars with his father, Isai. Mark established operations in Costa Rica; Isai, a former IBM programmer, developed the gambling software in Toronto.

The Scheinbergs ultimately domiciled PokerStars in the Isle of Man and built it into the world's biggest online-poker business. It benefited greatly from the poker craze that swept the U.S. starting in 2003, after an unknown Tennessee accountant, Chris Moneymaker, became an overnight millionaire by winning the World Series of Poker's Main Event, having secured his seat by winning a PokerStars play-in.

The Scheinbergs were bold, too, continuing to advertise on American TV even after Congress passed the Unlawful Internet Gambling En-

forcement Act in 2006. In 2011 federal prosecutors shut down PokerStars' U.S. site, indicted Isai Scheinberg—but not Mark—and sued the company, which paid a \$731 million settlement. (Isai has not come to the U.S. to face charges; he and PokerStars deny all wrongdoing.)

Mark Scheinberg, 40, was
PokerStars' biggest shareholder;
the acquisition gives him a
net worth of \$4.1 billion.
Now it's up to David
Baazov, Amaya's
34-year-old
CEO, to play his

new hand right.

AFRICAS RICHEST BY KERRY A. DOLAN WITH ABRAM BROWN AND LUISA KROLL. REPORTED BY ZINA MOUKHEIBER AND MFONOBONG NSEHE, WITH ADDITIONAL REPORTING FROM FORBES AFRICA, CHRISTOPHER HELMAN, CHASE PETERSON-WITHORN AND KATIA SAVCHUK. NEW BILLIONAIRE BY NATHAN VARDI



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# Market Gains? It's Time to Consider a Donor-Advised Fund for Giving

BY KANDICE K. BRIDGES

ore than 80% of households that itemize deductions on their taxes give to charity, according to the IRS. As the year's end approaches, donors want to know how to tap portfolio gains and asset appreciation to support their giving in the most tax-efficient way. Donor-advised funds, or DAFs, may well be the answer.

A donor-advised fund is a charitable account sponsored by a public charity that donors use to support their philanthropy. Donors make an irrevocable contribution to the charity to establish the DAF and can take an immediate tax deduction. They can then make recommendations for distributing the funds to qualified charities on their own timetable, and can advise how the funds are invested. (Any growth is tax-free.)

The dual tax benefits can include a charitable deduction (50% of adjusted gross income for cash donations, 30% for appreciated assets) and the elimination of capital gains taxes. "DAFs can really simplify the giving process for donors, especially if you support multiple charities," says Karla Valas, managing director of the Complex Asset Group for Fidelity Charitable,



an independent public charity. Fidelity Charitable sponsors the largest donor-advised fund program in the country.

One of the key advantages of DAFs is that many can accept long-term appreciated assets as well as cash. Donors often will get a greater deduction and have more to give to charity if they give the asset, rather than selling it and giving the after-tax cash proceeds. The assets Fidelity Charitable accepts include:

"The blood, sweat and tears entrepreneurs invested to build their company can be converted into infinite charitable giving power."

 KARLA VALAS,
 MANAGING DIRECTOR, COMPLEX ASSET GROUP, FIDELITY CHARITABLE

# Publicly Traded Stocks and Mutual Funds

Holders of publicly traded stocks and mutual funds have enjoyed an increase in value over the last several years. Donors can potentially eliminate capital gains when they donate shares that have been held for at least 12 months. This is also a great way for donors to rebalance their portfolios and reduce concentrated positions.

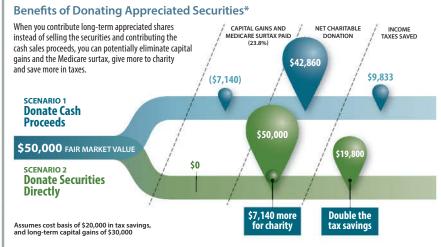
## Closely Held Business Interests

Because of growth in private businesses and other market factors, 2014 has seen a surge in mergers and acquisition activity. "Entrepreneurs and private equity investors have a veritable buffet of appreciated complex assets," says Valas. "The blood, sweat and tears they invested to build their company can be converted into infinite charitable giving power."

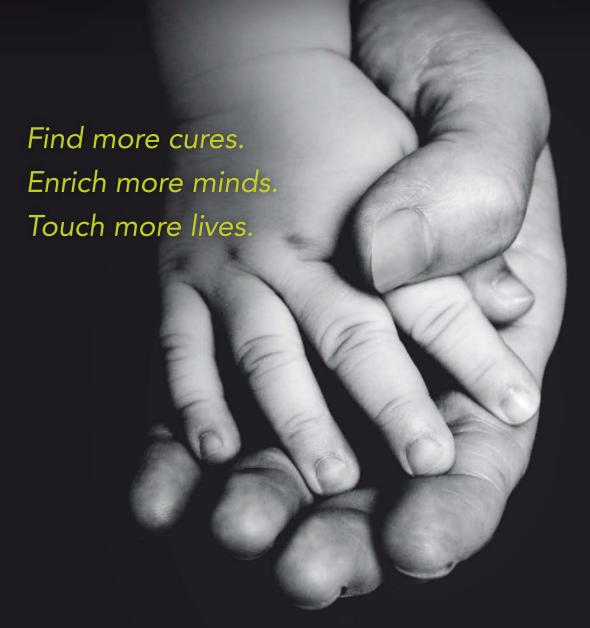
# Real Estate

Given rising values, Valas suggests that donors consider real property as an option. "We've accepted real estate, including oceanfront condos, vacation homes, farmland, timber rights and affordable housing credits," she says.

Valas advises donors to review their portfolios before making end-of-year donation decisions. "They should compare their appreciated asset portfolio—the publicly traded to their non-publicly traded," she explains, and donate the asset that can best help maximize the amount they can give while minimizing taxes. Fidelity Charitable can help with this analysis, making donor-advised funds a winwin for donors and charities alike.



\*In addition to assumptions noted in chart, this example assumes a married couple in the highest federal income tax bracket, filing jointly, and a fully deductible donation at fair market value to a qualified public charity. It does not take into account state or local taxes, the alternative minimum tax, or limitations on deductions for taxpayers in higher income brackets. The charitable deduction is only available at the federal level if you itemize deductions. Charitable contributions of capital gain property held for more than one year are usually deductible at fair market value. Deductions for capital gain property held for one year or less are usually limited to cost basis. This is a hypothetical example for illustrative purposes only. Results will vary depending on an individual's tax situation.



# Make more of a difference with your charitable giving.

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# **LESLIE WEXNER** +\$310 MILLION

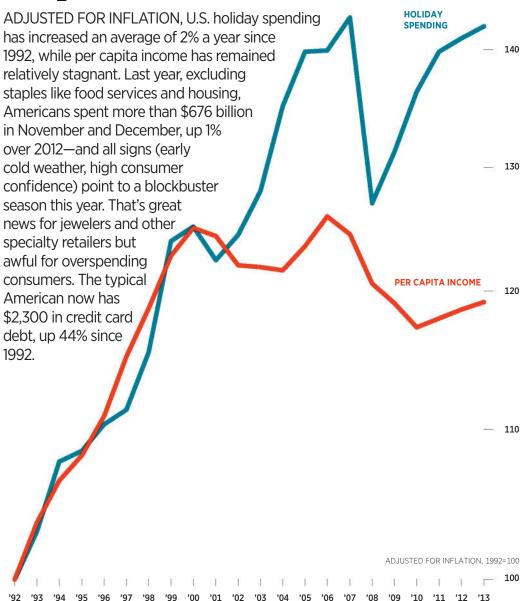
With 99% of his stores turning a profit, Victoria's Secret boss speeds global expansion, with plans to open a new location every two days in 2015.



# **EXECUTIVE INTEL**

LeaderBoard

# **Shop Talk**



# SIGNS OF INCREASED HOLIDAY SPENDING

'04



'93 94 **'95** '96



00'



'05 '06 '07



About 20% of all retail sales occur during November and December, but some consumer categories are far more dependent on holiday cheer than others.

# **5 MOST DEPENDENT RETAIL SECTORS**

Hobbies, Toys and Games

**30.0%** 

Jewelry

Department Stores

Home Furnishings

Computers and Software **24**.2%

# **5 LEAST DEPENDENT RETAIL**

**SECTORS** Floor Covering Stores

16.5%

Hardware Stores

Building Materials, Supplies and Garden Equipment

Gas Stations

15.7%

Paint and Wallpaper

SOURCE: U.S. CENSUS BUREAU.



# For the most critical questions.

No matter how complex your business questions, we have the capabilities and experience to deliver the answers you need to move forward. As the world's largest consulting firm, we can help you take decisive action and achieve sustainable results. www.deloitte.com/answers

**Deloitte.**Consulting

A year after SAC Capital settled insidertrading charges for \$1.8 billion, Cohen reportedly plunks down \$101 million for the Giacometti sculpture.

# **LeaderBoard**

# BY THE NUMBERS

# **Never Settle**

When a billion-dollar divorce seems unfair.



**AN OKLAHOMA JUDGE** recently awarded Sue Ann Hamm a \$1 billion divorce settlement in her split from her husband of 26 years, Harold, but she's appealing because—despite having received one of the largest cash settlements in history—she doesn't think she's getting enough.

Greedy? Well, not really. At the time of the decision Harold Hamm, the oil-and-gas man who's the CEO of Continental Resources, was the 24th-richest man in the country, with a fortune of some \$18.7 billion. That judgment therefore amounted to just 5% of his wealth. Several other members of The Forbes 400 have parted with much larger portions of their pile when wedded bliss fizzled.

#### STEVE WYNN 2010

SETTLEMENT: **\$740 MILLION** SHARE OF NET WORTH: **32%** 

The casino mogul and his wife, Elaine, were actually married before, for 23 years, before divorcing in 1986, remarrying in 1991 and then divorcing again.

# RUPERT MURDOCH

SETTLEMENT: **\$1.7 BILLION**SHARE OF NET WORTH: **25%** 

This was Murdoch's second divorce; he'd marry his third wife, Wendi Deng (whom he also later divorced), just 17 days later.

#### CRAIG MCCAW 1997

SETTLEMENT: **\$460 MILLION** SHARE OF NET WORTH: **23%** 

He got the house, she got the Gulfstream, but for five days a month they agreed to swap.

#### STEWART RAHR 2013

SETTLEMENT: **\$250 MILLION** SHARE OF NET WORTH: **16%** 

"My divorce ... was phenomenal. I love that girl."

# ASK 50 BILLIONAIRES Do You Have A Charitable Foundation? YES 78%

# **30 UNDER 30**

# Corporate Climbers

Professionals on the Forbes 30 Under 30 angling for the corner office, in 30 words or less.

# **Jonathan Amoona**

**WINSTON & STRAWN | 30** 

One of sports law's rising litigators, Amoona has kept busy as part of the squad defending Ray Rice. Up next: assisting with the appeal of Adrian Peterson's NFL suspension.



# Audrey Gelman SKDKNICKERBOCKER | 27



Gelman leads the new strategicconsulting division of SKDKnickerbocker, helping clients such as Pepsi, Douglas Elliman, HBO and Patagonia reach fickle American Millennials.



# **Andrew Silverman**

**GOLDMAN SACHS | 29** 

The Harvard math whiz leaped from associate to VP in less than a year; in 2014 Silverman's prowess in trading distressed debt landed him a new title: managing director.

30 UNDER 30 BY KATHRYN DIL; DNORCE BY CHASE PETERSON-WITHORN (ALL FIGURES REFLECT NET WORTH AT TIME OF DIVORCE SETTLEMENT). JOHN UELAND, AUDREY GELMAN: SLAVEN VLASIC / GETTY IMAGES, SCOTT EELLS/BLOOMBERG (TOP). JOHN ROCKEFELL RF. HENRY GUTTMANN/GETY IMAGES

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This cloud gives teams an edge. This is the Microsoft Cloud.





**OPERATING** 

**INCOME** 

Monster Beverage boss oversees monstrous growth; company reports record third-quarter sales thanks to growing popularity abroad.

**REVENUES** 

1-YEAR



# **SPORTSMONEY**

**LeaderBoard** 

# The Most Valuable NHL Franchises

FUELED BY A NEW Canadian media deal with Rogers Communications, the value of the average National Hockey League franchise rose 18.6% over the past year, to \$490 million. The 12-year, \$4.6 billion agreement—which gives Rogers the rights to all NHL games in Canada, including the entirety of the Stanley Cup playoffs, on TV, radio and the Internet in both French and English—is worth 2.6 times annually what the league currently gets.

During the 2013-14 season, the first full campaign under its new collective bargaining agreement, the NHL posted operating income (earnings before interest, taxes, depreciation and amortization) of \$453 million—up 81% over 2011–12, its previous full season.

The NHL is the junior member of North America's big four sports leagues by far. Even the least valuable NFL franchise, the St. Louis Rams, is worth nearly twice as much as the average NHL team. But hockey's new TV deal and labor peace augur smooth skating ahead.

**CURRENT** 

The five most valuable teams generated \$312 million, or 69% of the league's total operating income during the 2013-14 season.

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The L.A. Kings' two Stanley Cups in three years helped the team bank \$100 million in sponsorship renewals this summer



The Blackhawks had the highest average attendance (21,775) and biggest average local TV audience (153,000) of any U.S. NHL team last year.

RANK TEAM		(\$MIL)	CHANGE	(\$MIL)	(\$MIL)
1. TORONTO MAPLE LEAFS		\$1,300	13%	\$190	\$70.6
2. NEW YORK RANGERS		1,100	29	217	84.4
3. MONTREAL CANADIENS		1,000	29	187	59.8
4. CHICAGO BLACKHAWKS		825	32	172	50.2
5. VANCOUVER CANUCKS		800	14	154	46.7
6. BOSTON BRUINS		750	25	164	34.5
7. PHILADELPHIA FLYERS		625	25	136	11.0
8. LOS ANGELES KINGS		580	29	146	21.4
9. DETROIT RED WINGS		570	21	134	15.2
10. PITTSBURGH PENGUINS		565	18	141	21.9
11. WASHINGTON CAPITALS		500	21	117	13.4
12. EDMONTON	12. EDMONTON OILERS		19	119	25.3
13. CALGARY F	13. CALGARY FLAMES		7	122	22.3
14. SAN JOSE SHARKS		425	5	117	5.6
15. DALLAS STARS		420	26	113	3.5
16. OTTAWA SENATORS		400	5	117	22.5
17. MINNESOTA WILD		370	12	111	-5.4
18. ANAHEIM DUCKS		365	22	107	-3.7
19. COLORADO AVALANCHE		360	7	104	8.4
20. WINNIPEG JETS		358	5	102	3.3
21. NEW JERSEY DEVILS		330	8	111	-2.2
22. NEW YORK ISLANDERS		300	54	83	-2.5
23. BUFFALO SABRES		288	15	103	4.4
24. NASHVILLE	24. NASHVILLE PREDATORS		22	98	1.7
25. ST. LOUIS BLUES		235	27	98	-6.5
26. TAMPA BAY	26. TAMPA BAY LIGHTNING		28	97	-11.9
27. ARIZONA CO	OYOTES	225	12	80	-4.6
28. CAROLINA	28. CAROLINA HURRICANES		18	91	-14.0
29. COLUMBUS BLUE JACKETS		200	14	86	-6.3
30. FLORIDA PANTHERS		190	-21	83	-15.6
NHL AVERAGE		490	18	123	15.1

BASED ON CURRENT ARENA DEAL (UNLESS NEW ARENA IS PENDING), WITHOUT DEDUCTION FOR DEBT (OTHER THAN ARENA DEBT).
REVENUE AND OPERATING INCOME (EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION) ARE FOR 2013-14 SEASON ALL FIGURES IN U.S. DOLLARS

# TOP-**EARNING** HOCKEY **PLAYERS**



1. SIDNEY CROSBY Pittsburgh Penguins Total earnings: \$16.5 million **SALARY: \$12 MILLION ENDORSEMENTS: \$4.5 MILLION** 





Nashville Predators Total earnings: \$14.1 million **SALARY: \$14 MILLION** ENDORSEMENTS: \$100,000



3. ALEXANDER OVECHKIN Washington Capitals Total earnings: \$14 million **SALARY: \$10 MILLION** ENDORSEMENTS: \$4 MILLION



4. ZACH PARISE Minnesota Wild Total earnings: \$11.8 million **SALARY: \$11 MILLION** 

ENDORSEMENTS: \$800,000



**5. HENRIK LUNDQVIST New York Rangers** Total earnings: \$11.7 million **SALARY: \$11 MILLION** 

ENDORSEMENTS: \$700,000



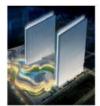
America's fashion king is expanding beyond domestic stores; sales online and overseas were both up more than 10% in the last year.



# REAL ESTATE

# **Revel Without a Cause**

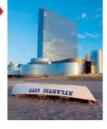
FOUR ATLANTIC CITY CASINOS have closed this year—another is expected to be shuttered soon—as revenues plunged because of new competition in neighboring states. The most spectacular fall in the Boardwalk empire? The \$2.4 billion Revel.



Morgan Stanley purchases Revel's land for \$74 million and picks Kevin DeSanctis, who had run Trump Plaza and worked with Steve Wynn, to plan the project. The bank invests \$1.25 billion. In September Pennsylvania approves slots-only casinos (New York follows a year later). That year Atlantic City gaming revenues are \$5.2 billion, an alltime high.

### **JANUARY 2008**

Crews lay Revel's foundation; construction is financed by an interim \$160 million loan. The next month city officials approve two hotel towers with 3,800 rooms; come summer, with credit tight, that plan is halved.



### **OCTOBER 2014**

**Brookfield Property** Partners, which owns the Las Vegas Hard Rock Hotel & Casino, wins a bankruptcy auction and agrees to buy the Revel for \$110 million in cash. In November it backs out.



The Revel shuts down on Sept. 2 after negotiations with several suitors, including Carl Icahn and Hard Rock International, fall through. Glenn Straub, who owns the Palm Beach Polo Golf & Country Club, bids \$90 million for the property and proposes a second, 35-story tower to house a university for 'geniuses" who would work to solve problems like nuclear-waste disposal. His brainstorm goes nowhere. The same month a video is released showing Baltimore Ravens running back Ray Rice assaulting his fiancée in a Revel elevator.





# MAR. 13, 2013

DeSanctis resigns. Twelve days later Revel files for bankruptcy, claiming that its value has dropped from \$2.4 billion to \$450 million Fourteen months later it files for Chapter 11 again.



\$8 million for the month. Management decides to permit smoking.



# **APRIL 2012**

The 47-story Revel opens with 1,400 hotel rooms and an inaugural Beyoncé concert. Guests have three finedining optionsbut they can't smoke while they gamble.



# **JAN. 2011**

With New Jersey Governor Chris Christie's support, DeSanctis goes to Wall Street in search of his needed \$1.4 billion. He raises \$1.15 billion in three loans from 15 to 20 hedge funds.



# **JANUARY 2009**

Out of money, Revel lays off 400 and halts interior work. It needs \$1.4 billion more, DeSanctis says. Construction stops completely in March. In May Delaware approves sports betting.



annual gaming revenue falls to \$3.9 billion; Pennsylvania legalizes table games early in 2010.

# **APRIL 2010**

Morgan Stanley pulls out with construction just 60% complete. The bank puts its stake up for sale, booking a \$932 million loss in the first quarter of 2010. Two months later Delaware offers table games.



EVANS/AP; ALAMY; GETTY IMAGES; MICHAEL PEREZ/THE WASHINGTON; BLOOMBERG; SPENCER PLATT/GETTY IMAGES; MICHAEL LOCCISANO/GETTY IMAGES (TOP)





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# **LeaderBoard**

-\$310 MILLION
NET WORTH: \$1.1 BILLION

Shares of his Zulily, an online retailer for mothers, plunge 22% in a day on news of a member-signup slump.



### **CONVERSATION**



**STEVEN BERTONI'S** Nov. 24 cover story about Tinder CEO Sean Rad broke some big news: Rad had been fired as CEO of the popular dating app he had cofounded. Bertoni's scoop and Tinder's Shakespearean drama-a sexualharassment suit, executive turmoil, majority ownership by old-school media magnate Barry Diller's IAC—made lots of noise, generating more than 100 articles in publications, including the Wall Street Journal and the Washington Post. Tweeted Web pioneer and angel investor Jason Calacanis: "How to lose control of a unicornfounders take note on @Tinder-always check track record of investors." T-Mobile CEO John Legere, with a wry nod to the way Tinder users accept or reject suitors, added, "Think they will find a way to swipe for a new CEO?"

### **INVESTING 101**

Excerpts from our recent #AskForbes personal finance Twitter chat.

**@HASSANINC** In the long term, would indices be more profitable than commodities like gold or oil?

@FORBES For most investors, the diversification benefit from investing in an equity index will be more beneficial, as opposed to trying to get the timing right on a commodity like oil or gold.

@JUAN2076 What is your view on investing in startups?

@FORBES It can be highly lucrative, but it is inherently very risky. Even the best startup investors usually have more misses than hits. They count on the home runs making up for the strikeouts.

**@JDBISHOP23** I've been invested in Apple since 1994. When should I sell?

**@FORBES** January 19, 2017. Seriously, though, if you've been in Apple that long, taking some off the table isn't a bad idea.

**@KIMKAUPE** What is a good age/time frame to enter the market & start investing?

**@FORBES** There's no time like the present. Every \$ you put in today (no matter your age) is worth much more than the \$ you put in 10 years from now.

### THE INTEREST GRAPH

Judging by the online page views from our Nov. 24 issue, everyone wants Sean Rad... except Barry Diller.

Exclusive: Sean Rad Out as Tinder CEO. Inside the Crazy Saga 214.045 views Glory to Jeffrey Gundlach, the New Bond King 'Gundlach's superstar status—he's well-known for his arrogance, eccentricities and Inside the Phenomenal Rise of WeWork volatility—is both a blessing and 59,271 a curse.' Inside Cargill's Plan to Make the World's Biggest Food Business Even Bigger "Fried chicken might not be an upscale product. but that doesn't KFC Killer: How Popeyes Reinvented Itself to Win the Fried Chicken War mean you can't sell 24,815 it like one." "Peterffy's face Thomas Peterffy Practically Invented Digital Trading, Now He Wants to Be Your Broker contorts. 'It drives me crazy,' he says. 'I'm really frustrated that I 16.603 Amazon and IBM: Whoops! going full sail.' 16,162 M&A Flashback: Maybelline's Makeover 900 VIEWS

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### **BOOKS FOR THE HOLIDAYS**



### THE SILICON VALLEY WRITER

Michael S. Malone, author of my first holiday pick, The Intel Trinity: How Robert Noyce, Gordon Moore, and Andy Grove Built the World's Most Important Company (HarperCollins, \$34.99), says the chip scientist Moore did the world a disfavor when he drew his famous law on logarithmic graph paper. Writes Malone, "Amazing-and rarely recognized because the world has long focused on Moore's straight-line

graph on the logarithmic paper, rather than on his original hyperbolic curve—is that everything that has happened in the digital world to the present, from calculators to the Internet to smartphones and tablets, has occurred in the shallow 'foothills' of the law's curve. The real curve began to bend almost straight upward only in about 2005."

What will this bend in the curve bring? Nanobots that cure cancer? The end of money as we know it? The possibilities should both thrill our imaginations and scare us. One person's breakthrough invention will surely be another's disruptive, fatal blow. Which side will your business be on?

This year's best book on how to start a company nimble enough for the "bend in the curve" is Zero to One: Notes on Startups, or How to Build the Future (Crown Business, \$27) by Peter Thiel and Blake Masters. Thiel is the rare entrepreneur (PayPal, Palantir, Clarium Capital, early Facebook investor) who writes with both colorful clarity and big-picture coherence. He covers the important stuff-strategy, fundraising, teams—with tips you'd best not ignore. My favorite two: You'll never fix a bad team in a fast-moving startup. So recruit carefully. And what should be obvious: The best businesses strive to be creative monopolies. Microsoft in the 1990s, Google today. The Bill Gates of tomorrow won't build another Windows. He or she will create something entirely new.

I can't resist mentioning that when Thiel was a Stanford law student in 1989 he interned at my magazine startup, *Upside*. Back then Thiel's goal was to become a Supreme Court justice. In Zero to One he tells how he got diverted from law to entrepreneurship.

If you wonder why three Federal Reserve quantitative easings, totaling \$4.48 trillion, have not yet shown up in CPI inflation or higher interest rates—or in a faster-growing economy, for that matter—you need to pay attention to the man who writes on the pages before mine. Steve Forbes and coauthor Elizabeth Ames have written a treatise on the American greenback called Money: How the Destruction of the Dollar Threatens the Global Economy—and What We Can Do About It (McGraw-Hill Education, \$28). Steve says that U.S. monetary policy warps investment decisions and damages growth. It's killing the retirement dreams of tens of millions of Americans, even as it delays the launch of tens of millions of younger careers. Since, as Churchill once said, America eventually gets it right after exhausting the alternatives, it will eventually tie the dollar's value to gold or something goldlike. If not, Bitcoin-like digital currency will replace the dollar.

### AND FOR FUN

For your more leisurely holiday reading, here's one more. Football: Great Writing About the National Sport, edited by John Schulian (Library of America, \$30), lives up to its promise. Schulian has compiled 44 pieces from a writer's Hall of Fame. Included are Grantland Rice on the Four Horsemen of Notre Dame, Red Smith on the Harvard-Yale rivalry, Frederick Exley's weirdly obsessive fan note to Frank Gifford, Larry Merchant on Joe Namath, Jimmy Breslin on Y.A. Tittle, Roy Blount Jr. on the 1970s Pittsburgh Steelers and Michael Lewis on the life of NFL kickers.

The best of the bunch is entitled "Pulled Pork and Pigskin: A Love Letter to Southern Football" and was written by Wright Thompson. This on Ole Miss: "I love the hope of those preseason predictions. I love 0-0. I love talking about Archie [Manning] like he played yesterday, because the past isn't dead; it isn't even the past. I love game day, the cars hurtling north from Jackson and Biloxi and Vicksburg and Meridian. I love Hermès ties paired with Widespread Panic hats. I love gin and tonic for breakfast and bourbon and Coke for lunch, each faithfully mixed and swilled in those red (or blue) plastic chalices that, as a child, I simply knew as 'Grove cups.'"

Read and enjoy! 📵

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### DEAD DUCKS AND ROARING LIONS



**ONE OF THE** weaknesses of the U.S. Constitution is that a President who has been repudiated in a midterm election has two more years to serve in a state of impotence.

There's no doubt about the rejection of Mr. Obama. He played little part in the recent election because Democratic senators and congressmen whose seats were in peril refused to let him show his face in their districts. One has to go back more than half a

century to find a national leader who was such a turnoff to voters.

The naturally resilient U.S. economy is in reasonably good shape and can be left to look after itself, especially since a Republican-controlled Congress will have a pro-business legislative agenda that the President won't dare veto. On contentious matters within the control of Congress he will have to cooperate. Therefore, Obama's lack of strength doesn't matter much except in one vital area: his role as Commander in Chief and the head of U.S. foreign and defense policies.

Obama's leadership in this has been so inept and mistaken that what might otherwise have been taken care of as minor problems have now begun to threaten world peace. Vladimir Putin has been allowed to emerge as a second Stalin, rebuilding the old Soviet empire with his annexation of Crimea and creating a new spirit of Russian nationalism that keeps him in power, despite the sanctions that have inflicted so much painful damage on the Russian economy.

Even more disturbing and avoidable has been the emergence in parts of Syria and Iraq of ISIS, the most successful terrorist movement in years. This is the direct result of Obama's shameful scuttle in Iraq, which left a weak government and ill-trained army in possession of huge quantities of first-class U.S. military equipment. ISIS promptly acquired much of this materiel and has put it to devastating use. Financing for ISIS appears to have come mostly from Qatar. Yet at no point did the President take decisive steps to stop the flow of funds from the Gulf into ISIS' coffers or to prevent ISIS from acquiring those arms.

When outraged cries came from all over the region, calling for Obama to use force to control ISIS, his response was feeble and limited to missile launches and air strikes from a small U.S. carrier group. Not surprisingly, this has done little to deter ISIS.

Obama presides over what has, in effect, become a pacifist Administration—and at a time when the world is slipping into some of the worst muddles and messes since the Cold War. Congress can do many things, but it can't issue orders to America's armed forces. It can,

however, strike deals with the White House. Much will depend on the skill and wisdom of Mitch McConnell, the new Senate majority leader. Since he holds most of the cards, it won't be difficult for McConnell to negotiate the legislative program—provided he can keep the GOP firebrands under control.

But what McConnell also needs to do is draw the executive and military power of the White House into the bargaining. The President must adopt a much firmer profile abroad, especially in dealing with Putin over Ukraine and in suppressing ISIS.

### TIME TO LEAD

This is where America's allies, especially Britain, have an important part to play. With its economy staging a full recovery from the 2008 slump, Britain, in conjunction with the U.S., is making a comeback in the cause of triumphant capitalism and can now speak to world affairs with a much stronger voice. But it's important that Britain acquire a more distinctive, personal and authoritative tone. With an election due in May and the Labour opposition in disorder, the time has come for Boris Johnson to play his leadership card. He may not exactly possess "the Churchill Factor," as he hints in his new book, but he exhibits many outstanding qualities of a national leader. He has extraordinary skills in getting people to work together and can tell people of different races and classes their faults without causing offense. This helped him, as mayor, turn London into one of the world's most successful and glamorous big cities.

It's time for Johnson to take over the Tory Party and lead it to victory. Then, in conjunction with Republican leaders in the U.S., he can give a new and more formidable flavor to the leadership of the Western world.

There may be a lame duck—or even a dead one-in Washington, but the British lion is learning to roar again. It'll surely find an echo and a response on the other side of the Atlantic.

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### A NETWORK OF AMERICAN DREAMERS



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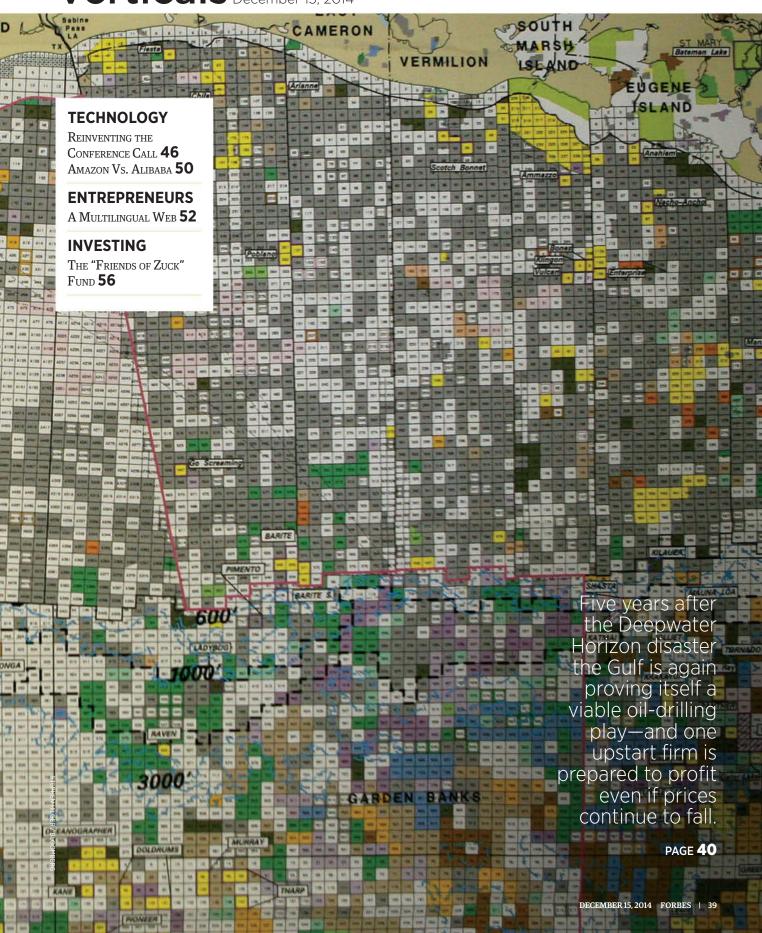


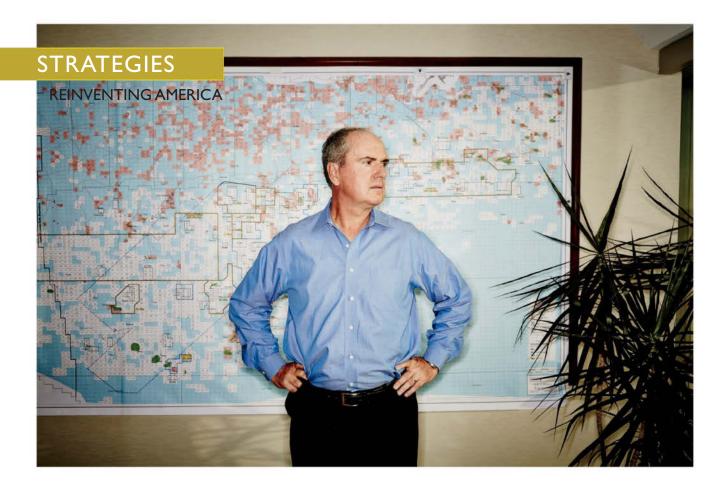


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# Verticals December 15, 2014





## Oil's Offshore Oddball

As the price of oil drops, America's shale frackers are running scared. But upstart Venari Resources is sitting pretty thanks to deepwater finds in the Gulf of Mexico that should still turn a profit at \$60 a barrel.

BY CHRISTOPHER HELMAN

n an era of plunging energy prices, mounting environmental regulations and a glut of oil flowing from wells across America, Brian Reinsborough's business plan seems more than contrarian. It seems downright nuts.

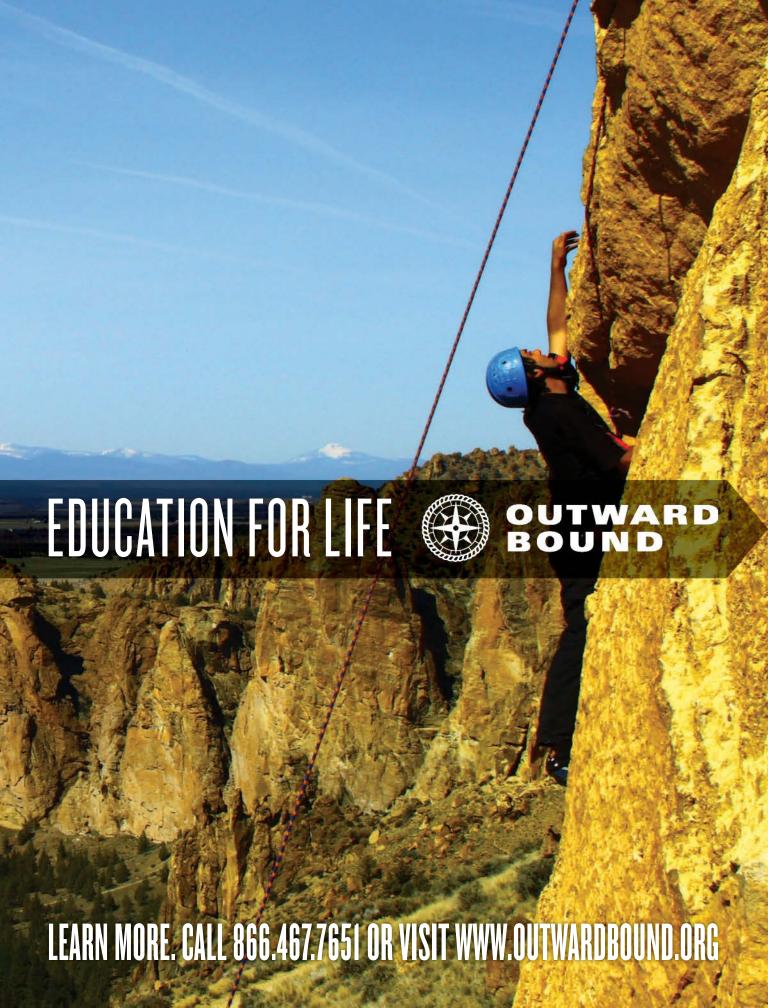
While the rest of the industry is using fracking and horizontal drilling to pull up shale oil from under the ranches of Texas and North Dakota, Reinsborough, CEO of Venari Resources, is looking 100 miles offshore in the Gulf of Mexico, taking huge bets on deepwater wells that cost as much as \$250 million each. ten times the cost of rival onshore wells. Launched with \$1.1 billion in private equity backing, Venari is working in water 4,000 feet deep and drilling 5 miles down, where the

pressure is 15,000 psi and the temperature can hit 300 degrees. Risky? Just ask BP.

Yet so far his winners have outnumbered his losers, and Venari is now one of the least likely victors of the American oil boom, with an outsize stake in some of the biggest deepwater discoveries of recent years, including a find called Shenandoah, thought to hold more than 1 billion barrels of oil (potentially worth some \$70 billion, even at current low prices), and Guadalupe, a discovery announced by partner Chevron in late October that could end up being just as big.

Falling oil prices, down some 30% recently, have been oddly good for business, Reinsborough insists. That's because even after investors put up as much as \$7.5 billion to build a massive production platform like Chevron's new 160,000-ton Jack/St. Malo structure, the fields are so vast and the volumes so big (think 20,000 barrels a day from a single well) that they can still make good money at oil prices as low as \$60 a barrel. Rival shale-oil producers are struggling at \$80. "It's ironic," says Reinsborough. "Lower prices are making prices as low as \$60 a barrel. Rival shale-oil our business more appealing."

Undersea adventure: BP's Gulf disaster didn't deter Venari Resources' **Brian Reinsborough from** hunting oil offshore.



To be sure, it will be years, and billions more invested in platforms and pipelines, before Venari can turn its 10% to 15% stakes in these fields into cash, but Reinsborough's investors are patient. "In a short amount of time they've done all the right things," says In Seon Hwang, a Warburg Pincus managing director whose firm chipped in \$500 million to get Venari going and helped raise another \$1.3 billion for the company this summer.

"They had a small window of entry," says John Snedden, professor of geophysics at the University of Texas. "They knew who to partner with, and they knew what not to get into."

Once the great hope for the future of American oil, the deepest waters of the Gulf deepwater startup company.

"This was the darkest moment for the deepwater Gulf of Mexico," he says, but he was convinced BP's disaster was a company problem, not an industry problem. "I wanted in, and wanted in big." His reasoning: The "permitorium" had prevented drilling new deepwater wells for two years. "With all those pent-up projects, I thought the best would get drilled first."

Reinsborough decided early on that Venari would not operate its own drilling and development projects but rather invest in them alongside partners like Chevron and Anadarko Petroleum. The key would be in choosing the right prospects. Venari's team relies upon a deep understanding of Gulf geology, bolstered

> not just by massive computing power but by what he says is a knack for devising algorithms that can sort patterns from noise. This is especially tricky when hunting oilfields below layers of salt, which scramble sound waves. So far 50% of the wells Venari has invested in have been discoveries. That beats the one-in-three deepwater average. "We will never drill stupid wells," Reinsborough insists.

Still, a well drilled this summer. dubbed Coronado, was disappointing enough that partner ConocoPhillips wrote it off and pulled out of the venture. "The original discovery well was very encouraging," said Conoco's

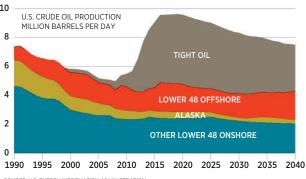
exploration chief on a recent quarterly conference call. But the second "appraisal" well "was disappointing."

Yet Reinsborough remains bullish on Coronado and his plan. In a 2013 sale of federal offshore drilling leases, Venari was the high bidder on 15 blocks, paying almost \$90 million, including \$45.5 million for the highest-bid block, a prospect it has dubbed Buddha's Brew.

Nearly five years after the Deepwater Horizon explosion, the cloud is lifting. Analysts at Wood Mackenzie see the Gulf ramping up to record production levels of 1.9 million barrels per day in 2016. "The silver lining is that the industry is better prepared and safer than ever before," says Reinsborough. "The Gulf is coming back."

### Where U.S. Oil Comes From

FRACKED "TIGHT" OIL IS NOW THE BIGGEST PART OF PRODUCTION, BUT OFFSHORE WILL REMAIN CRITICAL.



SOURCE: U.S. ENERGY INFORMATION ADMINISTRATION

of Mexico became an afterthought during the fracking boom. In 2010, as oil gushed from BP's blown-out Macondo well, the conventional wisdom was that deepwater drilling had grown too risky for all but the very biggest of balance sheets.

Reinsborough thought otherwise. He was president of U.S. operations for Calgary-based driller Nexen when BP's well exploded. Over the previous decade he had built Nexen's Gulf operation into a top-notch organization (China's Cnooc bought the company for \$20 billion in 2012). But when the Obama Administration imposed a moratorium on Gulf drilling after the BP spill, Reinsborough got antsy. In 2011, with the backing of Warburg, Reinsborough decided to exit Nexen and launch a

### GO CONSIDER **STOP**

### **OIL SHOCK**

Saudi Arabia's refusal to cut petroleum production amid a softening world economy is cratering oil prices. That's good for some, awful for others.

### **U.S. RETAILERS**

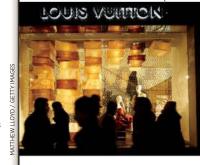
Merchants could see the best Christmas this decade, thanks to lower gas prices having liberated consumer cash.

### **BIG OIL**

Majors like Exxon and Chevron should see revenues decline, but they can withstand itand will likely take advantage by snapping up some minnows.

### **SMALL DRILLERS**

Oil's little guys are in trouble unless costs fall enough to keep shale drilling economical. Many stocks—such as Halcón Resources, Swift Energy and Goodrich Petroleumare off 40% or more as debt loads threaten to crush them.



FINAL THOUGHT



"Begin, be bold and venture to be wise." -HORACE

# BUILT FOR GROWTH BUILT FOR BUSINESS





# THE VIRTUAL DOCTOR

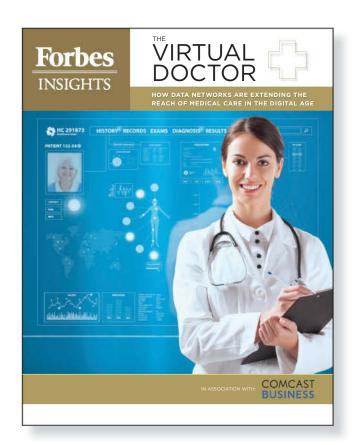
# HOW DATA NETWORKS ARE EXTENDING THE REACH OF MEDICAL CARE IN THE DIGITAL AGE

Thirteen years ago, a surgical robot named Zeus made history when a team of physicians in New York performed surgery on a patient in Strasbourg, France. The Lindbergh Operation, as it came to be called, represented a confluence of technical achievements, namely the dexterity of the digital Zeus Robotic Surgical System and a broadband transmission capability with optimized compression that limited the time delay between the doctors' commands in New York and the resulting action in France.

Since that breakthrough in 2001, the idea of treating patients remotely has touched almost every aspect of health-care. Neurologists can now "beam in" on stroke victims to provide instant assessments that can save lives. Patients recovering from surgery at home can have the equivalent of an electronic house call with a video link to their surgeon for follow-up appointments. And, in one of the newest applications of telemedicine, psychiatrists can create avatars to meet patients in virtual worlds where they can act out difficult scenarios.

We are not that far away from a future in which seeing a doctor does not require being in the same room or even the same building, says Yulun Wang, founder of InTouch Health and president of the American Telemedicine Association. "I think telemedicine will become the core methodology of healthcare delivery in the future," he says. "It has to, because that is where we are going to get the efficiencies we need to meet rising needs created by an aging population and provide affordable care."

One of the original imperatives for telemedicine was to bring better care to underserved and remote areas with few medical facilities or long distances between patients and doctors. But even in well-served areas, there are compelling reasons to incorporate telemedicine into many practices. There are not enough specialists—neurologists, cardiologists, dermatologists and psychiatrists, to name a few—to meet rising demand. Someone suffers a stroke every 40 seconds in the United States, but there is not always a neurologist available in the first few crucial minutes to provide a diagnosis. Telemedicine can also reduce costs and improve outcomes. For example, home health monitoring for people with chronic conditions, such as diabetes, could mean fewer missed appointments and hospital stays, not to mention reduced travel time for patients.



These imperatives are driving unprecedented innovation and entrepreneurial energy in the field of telemedicine today. However, none of this innovation would work without a reliable network capable of carrying a detailed image from one location to another, or to control a robot miles away, or simply to access an electronic record safely and securely.

New imaging systems, for example, save lives, but they also create massive digital files. "The hospital has to have a really good network to take advantage of this brilliant machinery," says Tomas Yanez, director of enterprise marketing at Comcast Business. "Everything may work great at the main hospital facility, but at the edge of the network, at the radiologist's office a few blocks away, it might not work very well at all if the network isn't robust enough," he explains.

"Everyone gets excited about the performance and the glory of a new application that promises to make the patient experience better or make a hospital more competitive, but it won't work unless there is a solid network foundation underneath to support it," says Yanez. "The network is behind the scenes, it's not in the lights where people are clapping. But the connection is real, and critical to the performance of any telemedicine application."

Comcast Business Ethernet services dovetail well with the needs of most healthcare providers. Ethernet is a protocol that can run on both fiber and coaxial cables, and it can often be expanded with just a single phone call. So if a new imaging system starts producing files that are choking the circuits, an existing Ethernet service can be expanded exponentially without digging new holes or laying new fiber.

Most hospital systems need to connect multiple locations, from the main facility, to outpatient clinics, physician's offices, imaging facilities and record archives—all of which may be miles from one another. Any hospital system that relies on digital medical records needs to ensure constant access to those records, and that requires a reliable network across all locations with multiple paths and multiple redundancies.

At Inspira Health Network, which was formed in 2012 after the merger of South Jersey Healthcare and Underwood-Memorial Hospital, a Wide Area Network (WAN) connects three medical centers, three health centers and dozens of outpatient sites with a combination of several different Comcast Business Ethernet services. Physicians at any of Inspira's facilities can access surgery notes, home health diagnostics and other data as they move from one patient to the next. Instead of juggling paper files, doctors can spend more time with their patients. Patients are also benefiting from the network via a dedicated portal where they can review test results, pay their bill, schedule classes and access a library of health care information.

"The more we become electronic with our records—and everything we do related to patient care is becoming digital—we can't afford to have any downtime," says Thomas Pacek, vice president and CIO of Inspira Health Network.

Security and privacy matter as well. Healthcare providers have to meet HIPAA requirements to protect patient privacy. A psychiatrist speaking with a client, for example, can't use standard free videoconferencing applications to hold a session. Instead, telepsychiatrists are required to use an application with HIPAA-compliant architecture that comes with a host of security features. Patients, for example, might be invited to enter a virtual exam room that can be opened only by the room's owner.

Much of telemedicine takes place over the public Internet. "The Internet is inexpensive, it's nearly ubiquitous, and you don't need to program anything," explains Yanez. Those qualities have laid the groundwork for an explosion in telemedicine. For a doctor answering an emergency call by logging on to a mobile device or paying a virtual visit to a patient in a remote location, the public Internet is the only option that makes sense.

But security is still a real concern. "What could happen when you pass medical records around over the Internet?" asks Yanez. Data is handed off from one network to another, exposing the sender to an embarrassing security breach.

That is why many hospital systems use private networks that don't traverse the public Internet. With the explosion of mobile devices and the growing use of telemedicine, some of them are able to extend their networks to include the homes of their healthcare providers through a service called "Ethernet at Homesm". This service offered by Comcast Business provisions off the healthcare facility's existing infrastructure without going over the Internet, just as it does at the other locations on a hospital network. It is one more way that telemedicine is breaking down the boundaries of distance and time to provide better outcomes for patients and healthcare providers.

Watch for the full report, available soon on Forbes Insights: forbes.com/forbesinsights



### **TECHNOLOGY**

**CLOUD** 

# Killing the Office Landline

Google has a new secret weapon in its fight against Microsoft Office: a startup of ex-Googlers really good at reinventing the telephone.

BY ALEX KONRAD

FOR TWO YEARS Craig Walker got a lot of puzzled looks about his chosen line of work: selling voiceconferencing software. Few technologies are as mundane and ridiculed as the conference call. It is hardly the kind of Big Idea one would expect from the entrepreneur who ran a company that pioneered phone dialing for a Web browser (DialPad, which Yahoo bought and turned into Yahoo Voice) and in 2006 created the first one-number-that-rings-everywhere-at-once service (GrandCentral, which Google bought and turned into Google Voice).

Walker's three-year-old company, Switch Communications, has done fairly well with UberConference, a simple, PIN-free cloud service. It's coming up on 1 billion call minutes so far and grosses nearly \$1 million per month from customers paying \$10 a month for the premium version. But UberConference was never Walker's real objective, just merely a step on the way to destroying the sleepy, bloated market for business phone service. "Conference calling was the low-hanging fruit, because it sucks. But as the next-gen provider of voice solutions, there's no limit unless the world runs out of phone numbers," says Walker, 49.

This month Walker introduced his company's big play, a service called Switch that replaces workers' desk phones and numbers with an app that works across whichever devices they want. If your boss calls your number, you can take it on your cellphone while walking from your car and then transfer it to your PC-connected headset at your desk. And when Switch connects to Google Apps it pulls in whatever data the apps have on the caller, such as e-mails, calendar meetings and shared files.

This was Walker's plan all along, and his investors Andreessen Horowitz and Google Ventures are betting he can carve out a big piece of the \$75 billion spent each year on Internet voice and unified communications (many times bigger than the \$4 billion conferencing market). Switch investor Marc Andreessen calls the company a two-stage rocket: "The first stage gets it up in the air, and the second stage gets it in orbit." As fuel,

Switch Communications' brain trust: cofounders John Rector, Craig Walker and Brian Peterson.



## SAMSUNG

# THE NEXT BIG THING IS HERE

GALAXY Note 4



Switch Communications raised \$15 million in 2012, valuing it at an estimated \$60 million before it saw a dime of revenue. It's likely worth four or five times that now.

Switch is at the forefront of a new crop of companies such as Grasshopper, Ring-Central, Twilio and gUnify that are using the efficiencies of the cloud to replace legacy telephone hardware, starting with "private branch exchanges," or PBX systems, from Cisco and Avaya that offices stick in a closet to route their calls. Switch charges about \$15 per person per month, as much as 40% less than what IT managers have been paying for years, says telephony expert Phil Edholm. And by operating its own servers out of data centers dotting the globe, Switch claims that its call quality is just as good as the most expensive option. "The world is changing and moving to the cloud," says Walker. "There has to be a system and products around that new reality."

Switch on its own is a disruptive force, but Walker has shrewdly calculated that he can gain a far wider market by working with his old colleagues at Google to make voice a significant feature in the search giant's plans to take on Microsoft in the office market. Google's suite of business apps (Gmail, Drive, Hangouts, Docs) got off to a slow start but is now a serious Office rival, with over \$1 billion in revenue, 5 million business customers and 5,000 more signing up every day.

Google uses UberConference, for example, to allow dozens of employees to call into a Google Hangouts videoconference by phone after the video service reaches its 15-person maximum. Sprint just announced a major integration with UberConference that will bring the service to its Google Apps for Work business customers. Just using UberConference instead of traditional phone conferencing will save the Weather Channel \$30,000 this year. A recent convert to Google Apps, the television channel, with its 1,500 employees, could soon be a much bigger account, testing Switch as a replacement for one of the major telecom giants.

Switch's close connection to Google is its strength—so close, in fact, that the new ser-

vice's first paying customer thought it was a Google product. The customer, Alejandro de Castro's food-delivery service in Los Angeles, was moving to a bigger office and needed a phone system. The CEO discovered Switch through a tweet and was able to enroll his startup, Summerland, in minutes. "They had a two-week free trial offer, and I said, 'I want to start paying for it now.'" Big businesses are interested, too. Trials last longer for them, so Switch can't name names just yet. But early testers include a big streaming-media company and two national furniture chains.

Switch has its detractors, especially among the host of videoconferencing start-ups that believe video, not voice, is the collaboration medium of the future. "I guess there's a case where a group call is okay for a status check," says Krish Ramakrishnan, CEO of Blue Jeans Network, a rival conferencing service. "But for group collaboration, you need video to see what you're working on."

Gartner analyst Steve Blood says that margins for Switch could prove tough to maintain as it navigates a complex network of middlemen who bridge calls from one service to another. Microsoft is said to be readying a revitalized Skype for Work for next year, and some traditional telcos like Verizon now want in on the action, Blood says.

Walker's challenge will be in controlling his own destiny. If voice features become key selling points to counter Microsoft, Google might just acquire Switch the way it bought Walker's last company—except this time it will be for a lot more money. "It makes no sense to duplicate what Craig already has," says one of Switch's early investors, Wesley Chan, a former partner at Google Ventures.

Walker doesn't relish going back into Google: It just doesn't sound as much fun at his age. As the market develops, his plan is to sign as many Google-style deals as he can with big players such as Salesforce, SAP and even Microsoft: "We want to be the company leading the charge of turning communications into software. That would make us a massive, stand-alone business."

### **TRENDING**

What the 65 million Forbes.com users are talking about. For a deeper dive go to FORBES.COM/TECHNOLOGY

### IDEA GET IS THE NEW FREE

Apple recently relabeled all free apps with a "get" button. There is no "free" when you're spending \$20 a month on, say, virtual poker chips.

#### COMPANY DOCKER

The hot startup is changing data-center economics. Hard to explain how it works; suffice it to say it makes deployment and updating of apps possible anywhere on Earth.



TRAVIS KALANICK
Uber's CEO is in
the hot seat again,
tweet-storming a
defense of his firm
after a top exec
talked about digging

up dirt on critical

journalists.

BRENT LEWIN / BLOOMBERG

FINAL THOUGHT



"Communications tools don't get socially interesting until they get technologically boring." — CLAY SHIRKY

# **WE ARE**

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We work every day with the single goal of protecting and growing the retirement savings and investments for millions of people around the world. We understand what that means.

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### **TECHNOLOGY**

ONLINE RETAIL



# Bezos Vs. Ma, **Holiday Edition**

Wary of Alibaba, Amazon is expanding logistics for partners.

BY RYAN MAC

elivery drones and smartphones are great for headlines, but if Amazon wants to win back the investors who have soured on its growth story it needs to stick to what it knows best: selling stuff. And not just in the U.S. but everywhere, now that Alibaba's massive IPO has highlighted the global ambitions of China's e-commerce giant.

Amazon's road back to Wall Street favor lies somewhere amid the tall shelves and yellow merchandise buckets of its 100-plus fulfillment centers, like the 1.2-million-square-foot one in San Bernardino, Calif., where Amazon squirrels away products like those made by Tech Armor, a manufacturer of phone cases and screen protectors. Tech Armor, based in the U.S., is already selling in Germany, Spain, Italy, Japan and the U.K. because of Fulfillment by Amazon (FBA), the logistics service in which smaller sellers pay Amazon a fee to handle and send their wares quickly around the world. For a small shop such as Tech Armor, FBA's influence has been immediate, with the company shipping almost 5 million units since its May 2012 debut and experiencing nearly 700% annual growth in 2013. "Amazon is a machine in terms of logistics," says Tech Armor cofounder Eric Tong. "During the holiday season it's one less thing we need to worry about."

Third-party sellers opting into the FBA program are entering into a bit of a Faustian bargain, because Amazon has been known to undercut hotter-selling items from outside vendors. The upside is that paying Amazon to store their wares makes the seller eligible for Amazon Prime, which means access to the company's most frequent customers.

Citi estimates about \$4.4 billion of Amazon's \$74.5 billion in sales in 2013 came from FBA sellers, a figure that could rise as Amazon converts more of its 2-million-plus third-party merchants to the program. Last year active FBA accounts jumped by 65%, says Tom Taylor, v.p. of Amazon's seller services. Wedbush Securities' Michael Pachter says the bump in FBA membership

results from third-party sellers realizing Amazon has a critical mass of "loyal buyers," particularly through its Prime members, who he estimates number over 30 million. As of September Amazon had doubled the number of international FBA sign-ups in the last 12 months. That comes with a cost: Net shipping losses widened in the third guarter to \$972 million, up 20% from 2013.

Losses will abate in time, says Taylor, as Amazon's global logistics settle into efficiencies achieved in the U.S. Amazon derives about 40% of net sales from abroad and recently announced the opening of five new fulfillment centers in India. It's also building a warehouse in Shanghai's free-trade zone.

That warehouse is a short drive from Alibaba's Hangzhou headquarters, whose \$9.3 billion (gross merchandise volume) Chinese sales bonanza on Nov. 11 was a loud reminder that Amazon is no longer the biggest kid on the block. With Alibaba's operation of U.S. marketplace 11 Main and investment in Primemimicker ShopRunner, outfits like Tech Armor will have more choices of where to sell.

### **GADGETS WE LOVE**

### THE TABLET **GROWS UP**

What to call this crazy thing—a hypercomputer? A Frankentablet? HP calls it a "creative workstation" offering "blended reality." It's the new Sprout (\$1,900; sprout.hp.com), and it's the most interactive PC you've ever laid hands on. Literally: Both the 23-inch monitor and the 20-inch mat that takes the place of a standard keyboard are touchscreen; the mat is also a browser, a scanner, a desktop and whatever else you care to make it do. Hanging over the unit like an awning is the "HP Illuminator," an LED desk lamp, projector and camera that offers instant capture of objects both 2-D and 3-D. Sprout adds tangibility and size to the sort of touchscreen immersion it's easy to take for granted in the tablet age. If you have to be moored at your desk by a PC all day, Sprout is certainly the way to do it.



FINAL THOUGHT



"Your margin is my opportunity." - JEFF BEZOS



# Speaking In Tongues

Smartling is riding a wave of global expansion by helping companies quickly translate their websites and apps.

BY BRIAN SOLOMON

ack in 2004 Jack Welde vowed never to involve himself in a translation project again. Then COO of RunTime Technologies, an enterprise CMS firm, he'd just been through a crippling, yearlong project on behalf of a new client to convert his platform from English to Japanese. "We said, No problem," Welde recalls. "But it almost killed the company."

Years later he's not only back in the translating game—Welde is also promoting his platform as the fastest way to help clients expand abroad. Smartling, the cloud software firm he cofounded and runs, has helped GoPro launch online stores in six new languages. The sites went live in just three weeks.

The trick is in simplifying the complex and tedious job of translating websites, apps and hundreds of other forms of media. Outsourcing language services is a \$35-billion-a-year business, feeding on the rapid expansion overseas by companies large and small. Smartling, cofounded with fellow RunTime vet and current CTO Andrey Akselrod, is an early mover with more than 300 clients (including Uber, Spotify and Tesla).

Also among them: Pinterest, which wanted to bring its pinning revolution to 30-plus new languages. Once, it might've engaged a big (and expensive) translation agency, which takes a cut, then passes the work to smaller firms, which may lateral to yet tinier agencies before it even reaches a translator. Another traditional hurdle: outdated technology. To translate a website, developers once had to copy every

displayed English word or phrase and send them to translators in a long list of disjointed strings. Stripped of context, does "home" refer to a user's house or the website's main page? Greater subtleties of language complicate the task. In Pinterest's case the word "pin" has a sexual connotation in many languages. Resolving such issues can take months of tiresome back-and-forth exchanges.

Smartling attacks such problems with a translation hub that eliminates inefficient document-based communication. Developers no longer pass around Excel sheets filled with words; the system automatically sucks up Pin-

Never say never: Jack Welde once vowed he wouldn't ever get into the translation business again.

IN EMERSON FOR FOR

terest's new content and delivers it to preapproved translators around the world. (Smartling contracts with thousands of translators and has a staff of roughly 160.) Translators then interact with the content in its proper context, with an editing system that resembles changing words on a live website. The "home" button is immediately distinguishable from "Apply for a Home Mortgage."

"The traditional tools work like a 1995 PC, but Smartling is more like Facebook or Twitter-it's sexy," says English-German translator Anja Jones. She expanded her own agency with work from Smartling. Jones says she onboards new freelancers in less than half an hour.

Project managers back in the U.S. oversee the translation work flow by routing content to translators and then back to reviewers, editors and lawyers—and back to translators once more, all within Smartling. Style guides can be changed on the fly and problems flagged early. New translators can be added, along with the ever growing bank of already translated words. Finally Smartling pushes the newly translated copy through the back end of a client's system to power, say, a new website in Dutch or new app in Korean.

Silvia Oviedo-López, Pinterest's localization manager, relies on the service to turn around translations in under 48 hours-for every new feature, in every supported language. "Smartling moves as quickly as we do," she says.

But Welde took his time reaching this point. Now 45 years old, he was a military brat who attended four different high schools. He enrolled at the University of Pennsylvania via ROTC and trained to be a pilot while studying computer programming and linguistics. Between graduation and mandatory service, Welde and two classmates created a personal information manager that integrated calendars, contacts, tasks and notes. They sold it in 1993 for \$2 million to Apple, which redubbed it Claris Organizer.

Welde owed the Air Force nine years, which he spent dropping paratroopers in hot spots like Kuwait and Kosovo. He returned in 2001 just after the tech implosion, with a decadesize hole in his coding résumé. At RunTime Welde rose to chief operating officer in less than six months. He also encountered the horrors of business translation. "Converting our code was like everything people feared about Y2K," says Welde. "I vowed never again."

But after bouncing around other tech firms, Welde called Akselrod to propose three startup ideas over coffee in 2009. Akselrod vetoed the first two (social networking and e-payments) but was excited to tackle the translation quagmire. Taking \$50,000 from Welde and \$100,000 from a college business partner who had become a venture capitalist, they built a prototype, working from home and enlisting Akselrod's contacts in his home country, Ukraine.

Its first big client was SurveyMonkey, which wanted to export questionnaires. Welde and Akselrod built servers to host translated websites around the world, a service Smartling still provides for about half its customers, good for 2 billion page views a month. Coordinating freelance translators himself, Welde thought the process would be too cumbersome for clients. But companies like Dropbox, with its own massive server infrastructure, asked for robust work flow management tools.

Smartling has been constantly refining that client-facing dashboard ever since, as it adds multinationals with more complicated needs like British Airways and Apple (or "the fruit company," as employees discreetly call their new client). "Every time I think it can't go any faster, it goes faster," says Akselrod.

The company relies on tiered fees based on the number of translated words across all languages stored in the system. Doubling in size each year, Smartling will pull in an estimated \$25 million in sales this year. That doesn't translate into profits. "The faster we grow, the longer it takes to get profitable," says new CFO Adi Dehejia. Investors aren't kvetching. In May a \$25 million Series D round led by Iconiq Capital (see story, p. 56) valued Smartling at \$250 million.

Up next: opening an office in San Francisco to go with Boston, London, Dublin, two developer centers in Ukraine and a new headquarters on Broadway. Further off, perhaps, is an in-house marketplace where clients and translators advertise and find each other. Welde is also exploring a self-serve option for tiny companies, a gateway drug to compete at the lower end of the market. These days everyone wants to go abroad. 🎇

### TRENDING

What the 65 million Forbes.com users are talking about. For a deeper dive go to FORBES.COM/ENTREPRENEURS

### IDEA E-HOOKED?

Is entrepreneurship a form of addiction? Its swings of euphoria and burnout, plus negative effects on family and friends, sound eerily familiar, says a new study. Up for grabs: a cure.

### **PERSON PHILIPPE GELIS**

His Kantox, a peer-topeer platform, lets small businesses trade foreign currencies themselves, avoiding brokers and bank traders—saving more than 80% in fees and steering clear of institutional scandals and fines.



### COMPANY **PREZI**

The Hungarian presentation software company-with the latest threat to Microsoft's PowerPointiust raised \$57 million. More impressive: its role in helping turn Budapest into a hub for tech startups, including Ustream and LogMeIn.

FINAL THOUGHT



"Mastery of language affords one remarkable opportunities." - Alexandre dumas





# REACHING THESUMIT

WHETHER YOU'RE JUST STARTING OUT OR LAUNCHING A NEW VENTURE, THESE ARE THE KEYS TO SUCCEED

Last month, more than 1,000 luminaries, gamechangers and entrepreneurs from a wide variety of fields descended upon Philadelphia for the firstever Forbes Under 30 Summit. With a series of provocative panels that featured seriously heavy hitters, like restaurateur Danny Meyer and venture capitalist Jim Breyer, the multi day event was a giant meeting of the minds, as attendees gathered to share experiences and swap ideas in the hopes of advancing careers and maybe even changing the world. If you couldn't make it to Philly, not to worry. Herein, some crucial tips and takeaways.



### LISTEN UP: THE VALUE OF MENTORS

While anyone can be a mentor, from strategic partners to family members, it's important to have fellow entrepreneurs and peers outside the company to whom you can turn. Thanks to mobile technology, it's easier than ever to create—and maintain—such a network. But to maximize these relationships, be a good listener. There is incalculable value in sharing experiences across fields, especially when you find yourself in an inevitable rough patch.



## EGO CHECK: YOUR COMPANY ISN'T ABOUT YOU

With an ever-evolving technological landscape, there's never been a better time to start a company. There are improved mobile tools, cloud-based systems, growing global networks, and grassroots marketing available via social media. And yet, to start a great company, you have to have purpose. Investors want to make big ambitious bets, and that means the only thing that matters is your product—or your vision—because passion is contagious. Likewise, understand your limitations, and surround yourself with a great team.



### FORWARD MARCH: HOW TO BE A LEADER

Being the boss can be lonely, but more important than making perfect decisions is that you keep moving forward, with passion and persistence. As a leader, don't just manage people; set an inspiring vision and be dead set on accomplishing it, while trusting and investing in your team. Always be prepared for failure, because failure is a big part of success. It makes you more humble, stronger and bolder. The only real failures are when you don't learn from them.



### GET BRANDED: TELL YOUR STORY

In a word, branding is storytelling. So how do you tell the story of your brand, communicating the unique values you share with consumers, while also advancing your agenda? Utilize the marketing tools of social media, of course—and never underestimate targeted messaging, which builds ambassadors. But remember, brand is everywhere, permeating every single point of user engagement. And with mobile applications, there are even more opportunities to connect with consumers, from creating a great shopping experience to being responsive to customer care.

# Overheard in the Business Circle Lounge

Throughout the Forbes Under 30 Summit, the brightest young minds visited the Business Circle Lounge to network, recharge and share their startup stories.





When starting a company, the best outerwear you can have is a thick skin."



Accept that you aren't the best person for everything."



Turn what you don't know into an asset."

For more from the Forbes Under 30 Summit—and for additional tips and tools to succeed—go to bizcircle.att.com



**BROKERS** 

# Friends Of Zuckerberg Fund

Not all financial advisors are created equal. Meet Divesh Makan, consigliere to Silicon Valley's brightest billionaires.

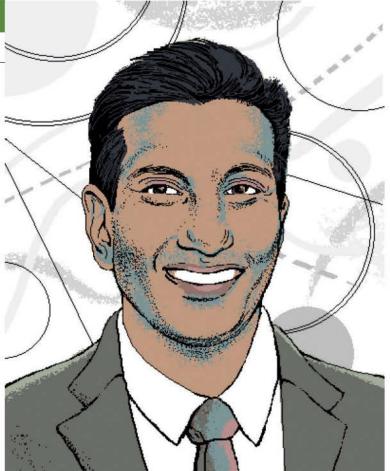
BY BRIAN SOLOMON

n the hierarchy of the investment business, stockbrokers have long occupied a spot near the bottom of the food chain. They are the hunters and gatherers, knocking on doors to bring in assets that earn small fees while the bigger fish arrange the headline-grabbing deals and score life-changing bonuses.

But among the throngs of brokers, who now prefer the moniker "wealth manager," few have cultivated a client base and model like Iconiq Capital, an obscure Silicon Valley firm headed by an irrepressible Indian from South Africa named Divesh Makan.

Makan, 41, has turned his otherwise runof-the-mill registered investment advisory into an exclusive members-only Silicon Valley billionaires club that operates as a cross between a family office and a venture capital fund. His most famous client and the key to his success is billionaire Facebook founder Mark Zuckerberg, whom Makan met in 2004 when he was a broker at Goldman Sachs.

Working his way into Zuckerberg's inner circle when Facebook was still in diapers has proved to be a gold mine for Iconiq. Already it has full discretion over \$1.4 billion in client funds and advises on another \$7.6 billion. Yet Iconiq's advisory services represent only one thread of the dealmaking web Makan has woven thanks to the abundance of Zuckerberg cronies on his client roster, including Facebook's Dustin Moskovitz and Sheryl Sandberg, Twitter's Jack Dorsey and LinkedIn's Reid



GATA NOWICKA FOR FOR

Hoffman. His board of directors is another power list, with nontech titans like Henry Kravis and David Bonderman, Chase Coleman and steel tycoon Lakshmi Mittal's son Aditya.

Makan's wealth management approach flies in the face of widely accepted post-Madoff best practices for advisors, which preach strict adherence to corporate protocols and regulatory rules. He is a throwback to the early days of Wall Street, when dealmakers like Goldman Sachs' Sidney Weinberg blurred the lines between business and pleasure and turned the art of schmoozing into a powerful and profitable investment banking network.

Indeed Makan shuns the title of wealth manager, according to those who have worked with him. He sees himself instead as part doit-all financial consigliere, part deal broker/venture capitalist and part human Rolodex. Makan's currency is access and relevance. While Silicon Valley stalwarts like Sequoia and Benchmark can point to a long list of successful IPOs and a deep bench of management experts, he hawks the "Zuck & Friends" brand

to piece together deals between young startup entrepreneurs and billionaire sugar daddies, as well as between the billionaires themselves.

The centerpiece of this action is Iconiq's \$500 million Strategic Partners fund, Makan's flagship among 39 private investment vehicles, which total about \$1 billion. The firm claims only 100 family office clients, but regulatory forms report some 300 investors, who put pre-IPO money into such companies as Alibaba and India's e-commerce giant Flipkart.

Key to Makan's pitch is bowling over wannabe Zuckerbergs with raw star power. Before Iconiq led a \$40 million Series D round last May for social media software firm Sprinklr, Makan invited founder Ragy Thomas to dinner with three famous billionaires.

"When someone like Iconiq wants to invest, you can't say no," says Thomas. "They can probably connect to anyone in the world."

Aaron Skonnard, cofounder of e-learning startup Pluralsight, received a similar "join Silicon Valley's inner circle" pitch from Makan before Iconiq participated in the firm's \$135 million Series B round.

"They don't want operational involvement," says Skonnard. "They just want to connect and network and give more access." He and his wife recently flew in to San Francisco from their home in Salt Lake City for a quarterly Iconiq networking event "where all the magic happens."

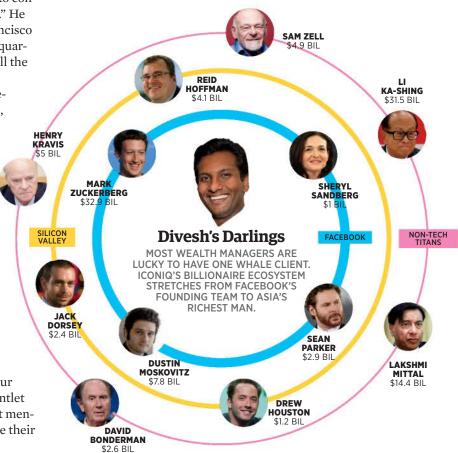
While Makan and his team sell entrepreneurs on access to its famous clients, they sell other connections on getting in on the ground floor of hot startups. Billionaire moguls like Sam Zell and Li Ka-shing have massive real estate portfolios but no direct link to the Silicon Valley in-crowd. Through Iconiq they have gained access to startups that Makan & Co. advertise as being "approved by Zuckerberg." What does Makan ask for in return? Opportunities for his clients to invest alongside Zell and Li in their deal flows.

As a registered investment advisor Makan has a fiduciary duty to "not engage in any activity in conflict with the interest of any client." But unlike your average Merrill broker, who faces a gauntlet of compliance hurdles on every product mentioned, Iconiq deals practically advertise their

dizzying array of conflicts of interest. Take Iconiq's 2013 investment in SurveyMonkey, in which Makan blurred the lines between investment advisor, limited partner and friend. He put clients like Dropbox's Drew Houston, Quora's Adam D'Angelo and LinkedIn's Jeff Weiner in the \$800 million round. But SurveyMonkey CEO Dave Goldberg and his wife, Facebook exec Sandberg, are also clients and confidants of Makan, and Goldberg sits on Iconiq's board. The SEC frowns on advisors engaging in such conflicts but will tolerate it as long as it's disclosed.

Like other wealth managers, Iconiq charges percentage-of-assets fees: up to 1.5% on allocations in stocks, bonds and ETFs. But it takes additional performance fees of 20% to 30% on venture fund profits. Not wanting to miss out on the action, Iconiq itself co-invests with its clients on the deals they arrange.

Makan shuns publicity and goes as far as to require clients to sign nondisclosure agreements. Though Iconiq refused comment, FORBES' investigation was stitched together from dozens of interviews with those in and around the firm. Many requested anonymity,



fearing they would be shut out of Makan's club.

The seeds of Iconiq's controversial family office/VC approach were planted in the summer of 2001. With an electrical engineering degree from South Africa's University of Natal, a management consulting stint at Accenture and a Wharton M.B.A., Makan thought he'd make his career in investment banking or private equity. But the dot-com crash and recession forced him into a retail sales job in Goldman Sachs' San Francisco wealth advisory office.

Makan rarely handed out business cardsdistancing himself from the vanilla "wealth advisor" label-but he worked hard to ingratiate himself to young moguls, finding clients before they became household names. Sandberg and Goldberg joined his roster two years before Google's IPO, and he hooked up with Zuckerberg and Sean Parker shortly after Facebook moved from a Harvard dorm to Palo Alto. Makan inspired loyalty by referring clients to each other as much as they referred new ones to him. For example, he recommended Sandberg to Facebook.

In the early days Makan would volunteer as a gofer for everything from meeting with estate planning lawyers to buying an engagement ring. "Divesh will tell clients everything but 'I'll pick up your laundry," says one venture capitalist. In an interview in a 2007 issue of Families in Business magazine, Makan bragged that he had planned a stag party in Las Vegas, edited business school applications for clients' kids and even served as a marriage broker. Money management was but a small part of the job. "People care a lot more about us running their life. They want us to look after them," he said at the time.

Makan's full-service approach clashed with the rigid structure of traditional Wall Street firms, alienating colleagues and compliance officers alike. He left Goldman in 2008, telling people it was over a workplace disagreement, but Goldman officially describes the reason for termination as a "loss of trust." Either way he landed on his feet with a reported \$20 million signing bonus at Morgan Stanley, thanks to an assist from Sandberg, who vouched for him. Goldman co-workers Chad Boeding and

Michael Anders followed.

They had more freedom at Morgan Stanley but still clashed with higher-ups over the limits to their off-the-books behavior. Finally, in 2011, with the Facebook IPO imminent, Morgan Stanley devised a plan to create an in-house family office around Makan. According to former colleagues, Makan & Co. walked into a meeting and stated their intent to take the model outside the firm. Not wanting to anger Zuckerberg on the eve of Facebook's IPO, Morgan Stanley quietly let the three-man team strike out on their own.

These days Iconiq reports that it is closed to new clients, yet it still actively pitches entrepreneurs developing hot apps. The relationship starts with financial advice but often morphs into grabbing a stake in their companies for Iconiq and its best clients.

"Divesh is following a time-honored path," says Matt Harris, managing director at Bain Capital Ventures. "Goldman has 12 different businesses, and they're all opaque. If a company is raising money, they help them raise it, they take fees from them and [they also take fees] from the clients they got to invest."

Competitors like Bruce Brugler, of \$4 billion Presidio Group, marvel at Makan's success. "Iconiq is clearly conflicted, but that's their model. And it doesn't seem to slow them down." What could disrupt Iconiq's growth trajectory is a severe downturn in the overheated market for tech stocks and IPOs. "They're making a huge bet on the continued bull market, the sex appeal of a 'Friends of Zuckerberg' fund and co-investments that could make them look like heroes," Brugler says, "but they haven't been through the down cycle yet."

A few clients, like Zynga's Mark Pincus and Facebook's Chris Hughes, have pulled money out of the firm, but Iconiq continues to reel in new let's-make-a-deal clients.

The lure of tech billionaire connections was even dangled in front of FORBES. Iconiq's spokesman twice offered us "inside scoops" in exchange for dropping our story. Makan "would be a lot more valuable as an asset you could call all the time," we were told, "With his connections, Divesh could be a great friend."

### TRENDING

What the 65 million Forbes.com users are talking about. For a deeper dive go to FORBES.COM/INVESTING

### **COMPANY BEST BUY**

The battered retailer, still hanging in there, books a strong third quarter ahead of the crucial holiday shopping season.

### **PERSON SHINZO ABE**

Japan's prime minister calls for snap elections to seek a continued mandate for "Abenomics" as his long-suffering country tries to dig out of recession.



### IDFA COMMODITY **CRACKDOWN**

A two-year Senate investigation accuses Goldman Sachs, JPMorgan and Morgan Stanley of interfering with commodities markets to manipulate prices.

FINAL THOUGHT



"Charm was a scheme for making strangers like and trust a person immediately, no matter what the charmer had in mind." -kurt vonnegut



The goal of funding retirement can seem daunting. But by investing regularly in Prudential mutual funds and putting time on your side, you could see the domino effect of compounding interest have a big impact on your savings.

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PRUDENTIAL GLOBAL REAL ESTATE FUND	PURZX

Consider a fund's investment objectives, risks, charges, and expenses carefully before investing. The prospectus and summary prospectus contain this and other information about the fund. Contact your financial professional for a prospectus or summary prospectus. Read them carefully before investing. Only eligible investors, including various institutional investors and investors in certain mutual fund wrap or asset allocation programs, may purchase Class Z shares. See the prospectus for eligibility requirements.



Mutual fund investing involves risks. Some funds are riskier than others. The risks associated with investing in these funds include but are not limited to: derivative securities, which may carry market, credit, and liquidity risks (All funds); short sales, which involve costs and the risk of potentially unlimited losses (PDBZX, JDEZX, SPVZX); leveraging, which may magnify losses (PDBZX); high yield ("junk") bonds, which are subject to greater market risks (PDBZX); foreign securities, which are subject to currency fluctuation and political uncertainty (All funds); real estate, which poses certain risks related to overall and specific economic conditions as well as risks related to individual property, credit, and interest rate fluctuations (PURZX); and mortgage-backed securities, which are subject to prepayment and extension risks (PDBZX). Sector funds and specialty funds may not be suitable for all investors. Such funds are non-diversified, so a loss resulting from a particular security will have greater impact on the fund's return (PURZX). Fixed income investments are subject to interest rate risk, and their value will decline as interest rates rise (PDBZX). The risks associated with each fund are explained more fully in each fund's respective prospectus. There is no guarantee a fund's objectives will be achieved.

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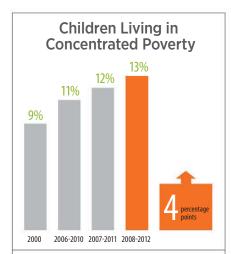
# Annie E. Casey Foundation Makes Kids Count

BY KANDICE K. BRIDGES

im Casey was on a mission starting at the age of 11, when he left school to support his family because of his father's declining health. He founded the small messenger company that ultimately would become United Parcel Service (UPS). The success of UPS enabled him to establish the Annie E. Casey Foundation, named after his mother. Through the efforts of Jim and his siblings, the Foundation became the nation's largest philanthropy dedicated solely to improving the lives of vulnerable children.

"Jim believed kids could succeed if parents provided them with emotional, ethical and material support," says Florencia Gutierrez, senior research associate for KIDS COUNT. In 1990, when child well-being information was limited and inaccessible, the Foundation launched the KIDS COUNT project.

What started as a hard copy book has expanded to include a robust, interactive online resource. "The KIDS COUNT Data Center is a one-stop shop on child well-being data," says Gutierrez. Thousands of indicators are available, spanning demographics, education, the economy, health, family, community, safety and risk behaviors.



Since 2000, the percentage of children living in high-poverty communities has increased four points.

Source: KIDS COUNT Data Center - data from 2000 Census and 5-year estimates from American Community Survey



"As a nation, we obsess over indices like the stock index, the consumer price index, GDP and so on. Our CEO, Patrick McCarthy, reminds us, 'Wouldn't it be great if we could have this kind of data on the well-being of kids in America?" says Norris West, director of strategic communications for the Foundation. KIDS COUNT is that data.

KIDS COUNT provides information that is meaningful because it is current and reflects real-world issues affecting children. "The site is constantly evolving," says Gutierrez. Most recently, KIDS COUNT partnered with experts in the field of race equity to provide a robust picture of how all kids, including children of color, are doing.

The benefits of KIDS COUNT aren't theoretical. For example, the state of Delaware used KIDS COUNT to quantify its infant mortality rate. "Shocked by how Delaware ranked, the governor put together a task force to develop recommendations," says Gutierrez. "After implementation, Delaware saw a 10% decrease in its infant mortality rate."

Delaware's experience demonstrates that meaningful change occurs at the intersection of quality data, effective communications and advocacy. "KIDS COUNT data help track the progress of kids from all racial groups, all parts of the country, all communities, cities, even congressional districts," says West.

KIDS COUNT is a comprehensive resource. Family foundations can use it to research

## THE KIDS COUNT DATA CENTER

- Ranks data points by state, county, congressional districts and school districts
- Compares data points by geographic area
- Maps data points
- Creates line graphs and bar graphs
- Generates customizable infographics
- · Shares through social media
- Creates static images for presentations and reports
- Embeds images in blogs

programs, allocate resources or persuade legislators. "While data alone can't get the job done," explains Gutierrez, "we need the data to start conversations about where changes and investments are needed."

Jim Casey's legacy of looking out for children lives on through the Foundation he created. Says West, "Jim's mission continues to drive us every day."

For more information about KIDS COUNT and the Annie E. Casey Foundation, visit:

www.aecf.org





# the data you need

### to make a difference for kids

Family foundations need good data when deciding how their investments can most effectively improve the lives of kids. Want to know how children are doing in your city? Your state? Your congressional district? Or nationally in specific areas, like the number of children living in poverty?

Turn to the KIDS COUNT Data Center. This highly interactive, online site has thousands of data points on child well-being — health, education, economic well-being and family and community.

It's easy to use the Data Center to create charts and graphs that illustrate vividly the greatest opportunities to make a difference and promote the healthy development of America's children.

Visit datacenter.kidscount.org and learn the facts you need to help kids get a good start in life.

# How Family Foundations Can Practice High-Impact Philanthropy

BY KANDICE K. BRIDGES

n only eight years, the Center for High Impact Philanthropy at the University of Pennsylvania has become a leading resource for family foundations. The Center works with donors and advisors and educates students to help them develop a strategy to maximize their impact on their chosen philanthropic cause. Katherina Rosqueta, founding executive director of the Center and adjunct faculty, observes, "Our alumni are emerging leaders in high-impact family philanthropy."

## Refining Your Giving Strategy for Maximum Impact

High-impact philanthropy is the process by which philanthropists make the biggest possible difference in a community or in the lives of targeted individuals. It consists of four key elements:

• A focus on social impact: High-impact philanthropy emphasizes creating a measurable, social good. It requires improving another person's life in social impact areas such as reducing poverty.

### IMPACT INVESTING

Impact investing occurs when a foundation invests financial resources, expecting a return that is both financial and social. For example, a foundation extends a loan to an African entrepreneur who manufactures malaria nets. If the effort is successful, it will result in the distribution of bed nets, and fewer people will die from malaria. The foundation enjoys a positive financial return on its invested capital, which it can use to generate more social impact, and lives are saved. "Impact investing is a way to use your money to support efforts, including commercial efforts, that line up with your philanthropic interest," says Rosqueta.



• Decision making informed by the best available information: It is critical to identify what has worked historically and what hasn't, and to use that information to make smarter decisions. Many issues remain unsolved despite enormous effort. "You don't want to spend your money inadvertently reinventing the wheel or, worse, learning the same lessons others have learned before," explains Rosqueta. The Center helps donors identify and harness the power of existing knowledge.

- Linking cost and impact: "High-impact donors think bang for buck," says Rosqueta. The bang is the social impact and the buck is what it takes to achieve it. An appropriate cost-perimpact analysis reveals information and specifics. For example, in its year-end giving guide, the Center analyzes an opportunity where \$200 can save a child's life in the developing world from preventable disease. "Linking cost and impact goes beyond asking, how much is spent on overhead. It asks the more important question, what does success cost?" she says.
- Continuous learning: "High-impact philanthropists are ambitious and recognize that they are working on tough issues.

There's an attitude of continuously learning, refining and getting better and better answers," says Rosqueta.

### The Center's Role

The Center provides free, topical guidance about various social impact issues, and it also helps solve challenges all family foundations face, regardless of their mission. "We guide foundations in how to define social impact, deploy human resources to find smart answers, focus a vision and measure its impact," Rosqueta notes. Sometimes support is more direct. "Our team facilitates the process of identifying answers when foundation members across generations ask, 'What if we were more coordinated and more strategic? Could we make a bigger difference?' We do the legwork, allowing foundations to get to impact faster," says Rosqueta.

High-impact philanthropy allows foundations to make a bigger difference. And they do.  $\blacksquare$ 

For more information about the Center for High Impact Philanthropy at the University of Pennsylvania, visit: **www.impact.upenn.edu** 

# How can we give all children a strong start?

A free online resource from the Center for High Impact Philanthropy:

### Invest In A Strong Start for Children

A Toolkit for Donors



High impact strategies to ensure education begins on day one Jackie Bezos,
Bezos Family Foundation

An essential resource for anyone seeking impact in this space Miriam Shark,

The Annie E. Casey Foundation

Translates research and practical knowledge into smart guidance Michael Burke, Buffett Early Childhood Fund

The Center for High Impact Philanthropy
School of Social Policy & Practice | University of Pennsylvania
In collaboration with alumni from the Wharton School

The Center for High Impact Philanthropy provides independent analysis, education, and advice to donors around the world working to maximize the social impact of their giving.

### **WHY I HATE ANNUITIES**



YOU MAY HAVE SEEN my firm's ads screaming, "I Hate Annuities." Folks ask why we run them. Simple: Because I do.

Granted, some "fixed" types are okay. But that's about it.

The contracts are huge, obtuse, confusing and hence rarely read. Sales reps rarely realize the lies they peddle, singing false praises—because they're paid hugely for a blind eye-that hide obscenely gargantuan commissions.

Hence they regularly mislead buyers,

who, like ostriches with their heads in the sand, almost never understand what they're buying, and who then spend years happily cashing their checks without any grasp of what actually happened.

"Variables" are the cigarettes of the investment world, which has hidden its curse for decades. The two products even share the burden of advertising restrictions: Colorado recently banned saying "safe" with "annuity" in any ad. More states will. Holders of variables, when walked through their contracts, unfailingly awaken-feeling misled, raped, cheated. Don't believe me? Google this: "FINRA Variable Annuities: Beyond the Hard Sell," an alert from the Financial Industry Regulatory Authority.

At least with simple securities you know you face risk. Variable annuities are sold as low-risk sure things. As in, "Where else do you get a

### **ANYTHING THAT SOUNDS TOO GOOD TO BE TRUE IS**

6% guaranteed return for life?" Anything that sounds too good to be true is. It's not a return on capital. It's a return of capital until the contract ends, you do, or it's all gone. You can do that yourself, at any percent you want. Anyone can! If you have a million bucks and like the sales rep so much, gift his kid halfway through Harvard while buying good stocks and bonds (or indexes) and you'll likely be better off.

Disclosure: My firm often buys folks out of the humongous surrender fees that imprison them in variables—if they stay with us. So my advice is conflicted. But we're simple, open and honest about it. We began because I hate annuities. I think we're the only ones doing buyouts. Few would up-front that capital. It's a moral quest.

Sanctimoniously thin-skinned industry shills will attack me online for this column, blathering their non sequiturs like "I hate Ken Fishernonsense, drivel, spin." Besigging my many failings doesn't justify these scumbag products. Ignore them, and buy more up-front, honest risks like simple stocks.

So what am I bullish on? Start with BIOGEN IDEC (BIIB, 299), a leading biotech firm priced largely like a huge pharmaceutical, a group I've liked for years. It's not cheap but should justify its valuations via very strong growth through leading-edge drugs for leukemia, non-Hodgkin's lymphoma, multiple sclerosis and hemophilia.

Last month I urged diving directly into Chinese meltdown fears. So buy AGRICULTURAL BANK OF CHINA (ACGBY, 11). Growth is impactful at China's third-largest bank—with its clout in the urban-rural interface, where lending is moving fast via ACGBY's 23,000-plus branches. Valuations are fine. The stock lagged for years with China's stocks. I like that. While waiting for gains you will be rewarded with a 5%-plus dividend yield.

HONDA MOTOR (HMC, 31) stock has gone nowhere long term, with a very bumpy ride. Lately it's been bumpy-down-25% year-to-date. I bet it's soon bumpy-up. Honda grows moderately, is Japan's only carmaker that has net exports from America, has a great product line, and sports bargain valuations at 50% of sales, 1.0 times book value and 10 times my March 2015 earnings estimate.

EMC (EMC, 30) is the most complete provider of IT infrastructure like storage, data protection, analytics, virtualization and security used across enterprise data centers and public cloud environments. Growth is near certain for years to come, yet it's priced marketlike at 2.6 times revenue and 13 times my 2015 earnings guestimate, with a 1.5% dividend yield.

Pimco's volatility from Bill Gross' exodus knocked the bejeebers out of its German parent, ALLIANZ (AZSEY, 17)—too much, overblown and out of all proportion to scale for the world's biggest, best insurer. It's now at book value, 0.6 times revenue and 12 times my 2015 earnings estimate, with a likely 3.2% 2015 dividend vield. Buy it. 📵

MONEY MANAGER KEN FISHER'S LATEST BOOK IS MARKETS NEVER FORGET (BUT PEOPLE DO) (JOHN WILEY, 2011). VISIT HIS HOME PAGE AT WWW.FORBES.COM/FISHER

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### THE NEXT ACT FOR SMALL CAPS



THUS FAR IN 2014 large caps have outperformed small caps by a wide margin, with the Russell 2000 Index up only 2% versus a gain of 12% for the S&P 500. Despite the short-term difference, history clearly favors small caps. Research by Ibbotson Associates says small-cap stocks have beaten large caps by an average of two percentage points per year since 1926. Periods of dramatic underperformance-like 2014-have often set the

stage for small caps' next great act.

In the last decade small caps lagged large caps by a magnitude similar to the most recent run of underperformance on three occasions (4/06–1/08, 9/08–3/09 and 4/11–10/11). Each time small caps fared better over the following year by at least 4 percentage points—a wide margin. In 2009 the subsequent outperformance was a massive 25 percentage points.

It's no surprise that small caps are cheap relative to large caps, but as I have said in the past, it is important not to neglect company-specific stories. Pay attention to valuation in light of the sustainability and long-term growth potential.

DIPLOMAT PHARMACY (DPLO, 28) of Flint, Mich. is an independent spe-

### DON'T BE AFRAID TO BUY GREAT **COMPANIES THAT LOOK EXPENSIVE BUT HAVE A CLEAR PATH TO GROWTH**

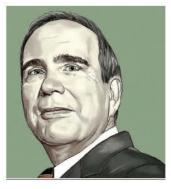
cialty pharmacy that serves patients with complex chronic diseases like cancer, multiple sclerosis and hepatitis. Diplomat develops customized care management programs for dispensing clinically intensive and expensive drugs, many costing more than \$100,000 per year per patient. Specialty drugs are the fastest-growing segment in pharmaceuticals today, projected to grow 20% annually. Diplomat contains long-term costs for insurers by improving patient care and monitoring patient adherence. Shares trade for 60 times my 2015 EPS estimate of \$0.45, although profitability should surge in 2016 as its recurring revenue scales and margins widen.

Tennessee's AAC HOLDINGS (AAC, 27) provides inpatient substance abuse treatment services for individuals with drug and alcohol addiction. AAC operates six treatment facilities with a total of 493 beds, mostly in California, Nevada and Texas. In the second half of 2015 the company anticipates opening a new 164-bed residential facility in Tampa, Fla. AAC is benefiting from the Affordable Care Act, which requires coverage for substance abuse treatment and prohibits insurers from denying coverage due to preexisting conditions. The company completed its IPO in October. Shares trade for 45 times my forward earnings estimate of \$0.60, for 85% growth.

VASCO DATA SECURITY (VDSI, 28) is a leading security provider of two-factor authentication and electronic signatures. By its own count, over half of the largest 100 global banks use Vasco to protect mobile and online transactions and meet regulatory requirements. High-profile hacks mean business is booming. Vasco's Digipass can be implemented via numbergenerating tokens or embedded directly into mobile phone apps so the user does not need to carry a token. Shares trade for 26 times 2015 earnings, for 25% growth.

ZELTIQ AESTHETICS (ZLTQ, 28) has developed a system that reduces unwanted fat noninvasively. The California company's technology is based on the principle that fat cells are more sensitive to cold than other tissue. Zeltiq's FDA-cleared CoolSculpting procedure removes excess fat without surgery by precisely cooling fat cells. The frozen fat cells are naturally processed and eliminated by the body without damaging the skin and surrounding tissue. Zeltig went public in 2011 but first turned a profit in the second quarter of 2014. In 2012 there was a management overhaul. Zeltiq generates revenues from system sales and per-procedure fees, which implies a stable base of recurring revenue as the number of systems in the field grows. I expect the company to report its first full profitable year in 2015, with EPS of \$0.10 and revenue growth of 25%.

#### **ECLECTIC INCOME INVESTING**



FEAR IN THE MEDIA of interest rates rising seems to be abating. The main result of QE3 has been a run-up of the stock market and a reflating of Fannie Mae and Freddie Mac courtesy of the Fed's takeover of billions in their mortgages. Somehow that purchase has allowed the two ne'er-do-wells to book a more than \$200 billion profit that has reduced the federal deficit by the same amount. It's a wonder how these mortgages improved in value

by being moved from the books of one quasi-governmental entity to another quasi-governmental entity, the Fed. But hey, why look a gift horse in the mouth? All we need to know is that the markets can survive without Fed life support.

My view is that long-term interest rates will stay pretty much where they are today and short-term rates will do the same. And this could last for some time. The Fed talks a good line and promises to act responsibly once employment and the economy improve or the threat of deflation disappears. But that's kind of like waiting for the Chicago Cubs to win the World Series again. The fact is it has not acted responsibly since 2005. The exception was 2008, and that was to correct for a disaster much of its own making.

#### I EXPECT ANOTHER FINANCIAL CRISIS, BUT THE FED HAS LEARNED TO PREEMPTIVELY DEAL WITH THEM

The bottom line is that, for a variety of reasons, we face low growth worldwide for another five years or so accompanied by low long-term interest rates, and there's little the Fed can do about it. This is, however, a healthy environment for income investors who depend primarily on yield, not growth, for their investment returns. You hear pundits on TV saying junk yields are too low and the risk of inflation makes a decline inevitable. Don't believe it. They are looking at historical risk premiums and losing sight of the fact that such premiums don't correlate in a 2.3% ten-year Treasury world.

Yes, I expect another financial crisis within the next five years, but I also expect the Fed has learned something about how to preemptively deal with them before there's a major meltdown of the economy. Investors have learned something, too. We learned that large institutions

and open-end mutual funds are not the places to be in a crisis because most are too big and constrained to be nimble. Luckily there are other places to find yield.

Master limited partnerships, or MLPs, offer a lower rate of current income, but the growth prospects for the pipeline MLPs are phenomenal. For nontaxable accounts I recommend the TORTOISE ENERGY INFRASTRUCTURE (TYG, 48), a closed-end fund yielding 5.1% and trading at an 8.2% discount to NAV. Note that the exemption for unrelated business taxable income (UBTI) from an MLP in tax-sheltered accounts is limited to \$1,000.

Preferreds offer the greatest array of securities paying interest or dividends, sometimes with a conversion option. They offer superior returns because the issues are generally too small for large institutional buyers to compete. Two choices here are: NORTHERN TRUST's 5.85% PREFERRED (NTRSP, 25), which yields 5.9% and is rated Baa2/BBB+, and, below investment grade, DISCOVER FINANCIAL SERVICES' 6.5% PREFERRED (DFS B, 25), which yields 6.4% and is rated B1/BB-.

Real estate investment trusts are again popular and offer stable long-term yields as well as some inflation protection. Consider GOVERNMENT PROPERTIES INCOME TRUST (GOV. 23). It invests in properties leased to government tenants, and its shares yield a steady 7.5%.

Closed-end funds offer a range of income and risk combinations in a variety of industries. Because of their payout stability I like FLAHERTY & CRUMRINE PREFERRED SECURITIES INCOME **FUND (FFC, 20)**, yielding 8% and trading at a 3% premium to net asset value.

While growth equities generally offer meager dividends, business development company HERCULES TECHNOLOGY GROWTH CAPITAL (HTGC, 15) is an exception. It yields 7.9% with a growing dividend. It provides capital to 

### AN ICON JUST GOT LARGER







**PHILANTHROPY** 

NOBEL PEACE PRIZE WINNER MALALA YOUSAFZAI WAS SHOT BY THE TALIBAN FOR GOING TO SCHOOL, THEY TARGETED THE WRONG GIRL.

## "My Weaknesses Died on That Day"

Four months before she won the Nobel Peace Prize, FORBES brought teenage Pakistani education activist Malala Yousafzai to our Third Annual Summit on Philanthropy, held June 17 at the New York Public Library. Laurene Powell Jobs, an education and immigration advocate and the widow of Apple cofounder Steve Jobs, interviewed Malala before an audience of nearly 200 leading philanthropists who share an interest in education, the theme of the day.



**LAURENE POWELL JOBS:** I have the privilege of introducing you to the bravest person you'll ever meet. You know the broad outlines of Malala Yousafzai's story.

In October 2012 a masked Taliban gunman in Pakistan's Swat Valley flagged down a school bus, boarded it and shouted at the terrified girls, "Who is Malala?" He then shot 15-year-old Malala in the face. Her crime? Speaking up for the right and belief that all children should be able to get an education.

Their misguided violence resulted in making her voice and message exponentially stronger. Over the past year I've had the opportunity to learn more about why the Taliban, and all who deny girls the right to learn, have everything to fear from this young woman. For this is a voice, as you will hear, that cannot and will not be silenced. As my friend who's filming her documentary told me, "The Taliban shot the wrong girl."

MALALA YOUSAFZAI: Thank you.

**POWELL JOBS:** Talk a bit about your childhood and some of the conditions in the Swat Valley that shaped your upbringing.

YOUSAFZAI: Swat Valley is a very beautiful place, with tall mountains, beautiful rivers and lush, green hills and trees. We used to have tourists from all over the world.

I was going to school every day. My father, my mother-we all were in a very small house, not rich economically but rich in our values, in our ethics.

Then some extremists, the Taliban, came to the valley and changed our lives. Girls' education was banned.

More than 400 schools were destroyed. Women were not allowed to go to markets. Hairdresser shops were blasted. They said that no one has the right to be free.

But education was very important to me. I wanted to be someone. I wanted to have an identity.

I had two options. One was to remain silent and never to speak and then to be killed by the terrorists. The second option was to speak up for my rights and then die. And I chose the second one.

On the ninth of October 2012 I was shot. The terrorists made a very big mistake, because I was afraid that they might be able to stop me. But they proved that no one can stop me. My weaknesses died on that day, and a strength was born. So I think I should be very thankful to them.

**POWELL JOBS:** What happened after you were shot? Where are you and your family living now?

YOUSAFZAI: After I was shot I was brought to Birmingham, England, to the Queen Elizabeth Hospital, which is a very good hospital with nice doctors and nurses. They took care of me, and all the surgeries were successful. I'm going to a very nice school. The girls at the school—they're brilliant. I'm quite busy, and sometimes I miss a lot of lessons. I try my best to work hard.

POWELL JOBS: You can't go back to Pakistan?

**YOUSAFZAI:** It seems quite difficult. I wish to go back. We talked to the government. It does not seem safe.

**POWELL JOBS:** How do you balance speaking to heads of state and then speaking to your girlfriends? How do you manage to navigate between all that comes with being a teenager and also this amazing opportunity that you have to be a spokesperson for girls' education across the world?

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**YOUSAFZAI:** Most of the time I do my activities for education and campaign for education on the weekends or holidays. Other than that, I don't miss school days except for important events such as today.

**POWELL JOBS:** You had the idea of the Malala Fund when you were still in school in Pakistan?

YOUSAFZAI: Yes. I did. It was for those girls who were suffering from domestic child labor. There was a woman who was coming to our house, and she had three little daughters. And I told my father, "I can't see these little daughters working in our house." But they would have no other way of earning a living.

My father was running a school at that time. The school is still there. He started it in 1994, and it had 1.100 students-both girls and boys. I told my father, "These girls should get free education in your school." My father did admit those girls, and they have scholarships now from the Malala Fund.

**POWELL JOBS:** You have an incredible opportunity to shape a conversation around issues that are critically important for girls across the world. And you will, by virtue of who you are, shine a bright spotlight on inequities and injustices. So why don't you walk us through a bit of the priorities of the Malala Fund?

YOUSAFZAI: When I was brought to Birmingham, at first I did not know what to do or how to restart the fund.

We started the Malala Fund again nine months ago. We said that we want to do two things. One was advocacy, to reach responsible people and to ask them to do their part. The second is going and working on the ground, to see what problems children are facing and then help them in getting an education. In each place the situation is different, so you have to find a different solution for it. The Malala Fund also wants to recognize those girls who speak up for their rights. We want to give them a big platform so that they can speak in front of the whole world and highlight the issues that they are facing.

**POWELL JOBS:** What are some of the programs that you've started already?

**YOUSAFZAI:** These past few months we did a lot. We started our first project in my beautiful Swat Valley, my hometown. We introduced scholarships for those girls who are suffering from child labor. Now these girls are getting an education. We also support their families economically.

We started a project in Jordan for Syrian refugees. The schools were in a tent, and children from age 5 to age 13 were in one classroom, and there was only one teacher. We wanted to provide them with good facilities and also support them.

In Kenya I went to the Masai Mara area. We started working with Free the Children, which is an amazing organization. They build a school, but then they don't leave the school. They say, "We want to make sure that the students are going there." The students are in good facilities, and there's a hospital to take care of their health. Seeing that, I became hopeful that what I have always dreamed of-making good schools and achieving sustainable development-I thought that, yes, it is happening.

**POWELL JOBS:** Are you working with the ministries of education and the government?

**YOUSAFZAI:** I think it's important that the government gets involved in this campaign because, as we know, most of the governments are spending most of the money from their budgets on defense. They give very little money to education. In Pakistan more than 20% of the government budget is spent on

defense and only about 2% is spent on education.

So I think the government's role is very important. We haven't done great work with governments yet, but I'm hopeful that governments will also support us so we can do collective work with them in Pakistan and in Kenva.

Unfortunately, there are so many conflicts nowadays-in Syria, in Iraq. And the situation of Pakistan is getting worse every day. It just makes me worry about what is going to happen and who is going to find a solution.

I always try to ask political leaders from all over the world to take a step. They should come and sit together. It's for the safety of every country. They should try to find solutions for it—peaceful solutions for it. And they should also try to find the reason that these terrorist groups have risen up.

**POWELL JOBS:** What's stunning to me, having met your dad and you, is that despite the fact that you almost died, despite the fact that your family is living in exile, you have no bitterness in your heart. There's no anger there that's fueling your work. It's actually based in love and compassion. Where do you find that center?

**YOUSAFZAI:** The first thing is that I don't actually remember being shot. I don't really think about it. But the other important thing is that my father is there, and I always believe how much courage he has. And he inspires me.

And then there's another person we don't mention all the time: my mother. My mother always encourages us to continue this campaign. She believes that what we are doing is the truth and we should never be afraid of telling the truth.

If I want the terrorists to stop wars, to stop conflicts and to stop hating people, then I should also not hate them and I should not do any harsh things towards them. That's my philosophy. B

## The

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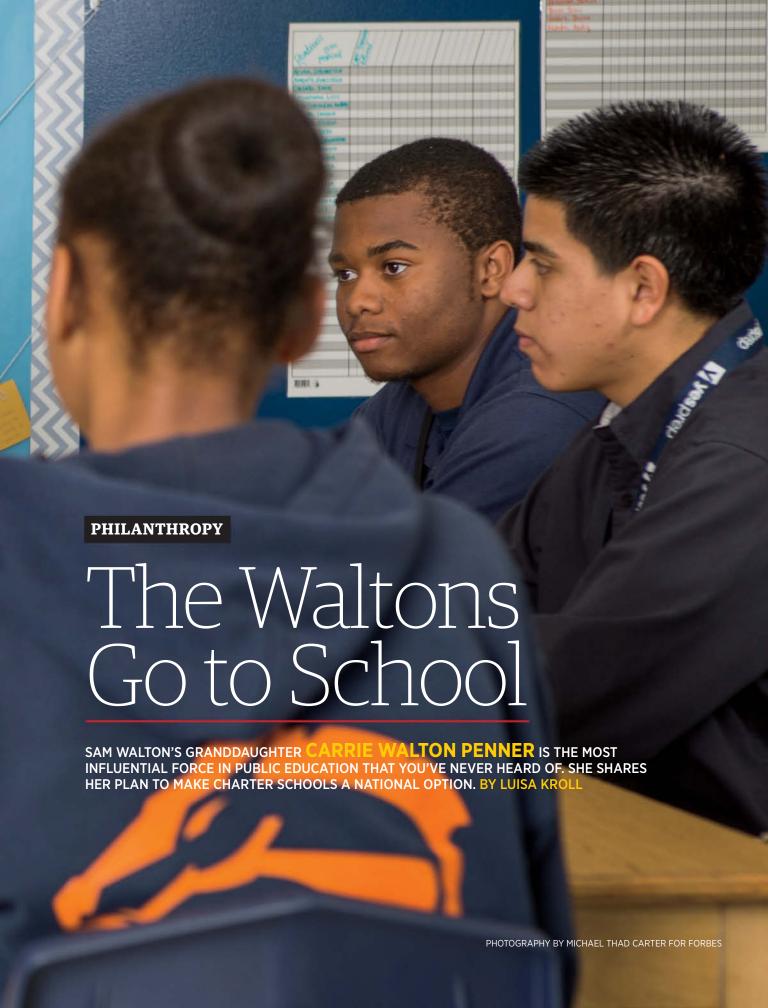
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#### **CARRIE WALTON PENNER**

vision for the future of education sits within a converted church in the heart of a working-class neighborhood in northern Houston, abutted by auto parts stores and a heat treatment plant. At Yes Prep North Central, homogeneity reigns: Of the 953 middle and high schoolers at the 11-year-old charter school, 96% are Hispanic, and a similarly large majority live at or below the poverty line.

The kids are dressed the same—blue or khaki pants with school-issued polo shirts. But most important, their outcomes are uniform, too: 100% of graduates get into a four-year college, as the university pennants lining the hallways suggest.

Gliding into the school, 44-year-old Carrie Walton Penner sticks out from the students-older, blonder and, in jeans and a black wrap jacket, more polished than the young collegiate uniforms she weaves through. She's also the granddaughter of Wal-Mart founder Sam Walton, the daughter of current company chairman Rob Walton, an heir to the largest family fortune, to the tune of \$165 billion, in the entire world. And as

the family's point person on education issues, she's arguably the most powerful force in the charter school movement.

"How long is the longest-serving teacher?" she asks the school director, amid a flurry of questions. "Is there step-up pay and pay for performance?"

Anything to do with charter schools is a political lightning rod right now. As is pretty much anything to do with Wal-Mart and the family that controls the world's largest retailer. Until now the personable Penner has been hesitant to speak up. Her conversations with

FORBES make up her first extensive media interview, and she speaks with the careful deliberateness of one of her charter school English teachers.

Listen carefully, though, and you get a clear vision of the charter school movement over the next five years and her place in it, something that she's been working toward, both consciously and unwittingly, over the past two decades.

Yes Prep North Central is an appropriate place to begin that conversation. Ranked the fourth-best high school in Texas and 28th in the country by U.S. News & World Report, it represents everything that's great about charters. Namely that all children, no matter their circumstances, can succeed when they attend the right school. "We've always had a strategy and theory for change," she says. "The current plan has been to have a new supply of high-performing, mostly charters, for parents to choose from."

To Penner that last clause is key: choice. Her four children, ages 10 to 16, go to private schools, but each attends a different one based on what is best for them. "We're living choice. That's what we want for all parents." There are an estimated 6,440

public charters—defined as schools that receive some public funding but operate independently—currently operating nationwide. The Waltons have provided over \$350 million in seed money to help start more than 1.600 of them, situated mostly in poor urban areas where minorities are in the majority.

With critical mass, they believe, free market forces will kick in: Plentiful charter schools will force other public schools to compete for students and thus get better. (They'd love to see private school vouchers in the mix as well.) "We're not saying all schools should be charters," says Greg Penner, Carrie's husband, a venture capitalist who was appointed Wal-Mart's vice chairman in June. "But that the dollars spent across the system will be more effectively spent when there is competition."

Carrie Walton Penner feels time pressure. "Today we see the opportunity window closing for so many children and families," she says. The Waltons have spent more than \$1 billion on K-12 education since the late 1980s, with two-thirds of that doled out in the last five years; besides the seed money for schools, another \$300 million has gone to build political and

> grassroots support, by funding charter school and parent advocacy groups.

She's made progress. Nearly 2.6 million kids now attend American charter schools, versus 1.8 million three years ago-and just 350,000 in 2000. Not everyone is happy about it. The anticharter crowd derides the gains, insisting that these schools take highly motivated families and tax dollars out of traditional public schools, leaving tougher-to-educate kids behind. In October Moody's issued a credit outlook warning that Los Angeles Unified School District's finances

are at risk due to charter school growth. "We are heading toward a dual school system: one, privately managed and free to choose and exclude students; the other, public, which must take all kids," says NYU professor Diane Ravitch. "Billionaires support the privately managed sector, in part because they love the fact that 90% of charters are nonunion."

Such polemics, which are shared with only a little less condescension by teachers union honchos, conveniently miss that Penner has some unexpected allies—President Obama and Secretary of Education Arne Duncan—in her pro-charter camp. She also has 70% of the American public, according to an August PDK/Gallup poll.

With more than 1 million kids sitting on charter school waiting lists, there's still work to be done, and Penner has emerged as the best positioned to lead the effort. "She comes across as very quiet at first," says Richard Barth, a founding member of Teach for America, who is now CEO of KIPP, one of the largest charter organizations in the country, on whose board Penner sits. "But you would be mistaken to underestimate her. She wants to have a big impact."

**SAM WALTON'S 1992** autobiography, *Made in America*, was one of the biggest-selling ever of its kind, and in it he provided a blueprint that his granddaughter has honored: "Frankly, I'd like to see an all-out revolution in education. We've got to target the inner-city schools and the rural poverty pockets." To back that up, he donated his share of the book's proceeds to the New American Schools Corp., which supported break-the-mold schools.

Sam and his wife Helen's involvement in the sector dated back to the 1980s, when during a trip to Central America the couple learned that the then Soviet Union and Cuba had programs to teach children from that region. They decided to start a U.S. program, in part to spread democracy.

All of the Walton children and grandchildren since have been encouraged from young ages to get involved and come to the Walton Family Foundation's triannual meetings. In fact, Sam and Helen set up the foundation as they did in part to get the family working together. "They knew that as Wal-Mart grew, we wouldn't be all coming together for the business,"

explains Penner. For the 11 adult Walton descendants and their spouses, who all sit on the board, these meetings often double as family vacations. While one of the three meetings is always held in Bentonville, Ark., Wal-Mart's hometown, the other two have rotated to places like Sedona, Galveston and Washington, D.C.

The family mostly acts in unison, at least publicly, but individuals take point on specific issues and projects. For instance, Alice Walton is the art lover who persuaded the foundation to spend \$1.3

billion on an art museum in Bentonville. Penner's father, Rob, is involved in the environment, another big area of their giving, and sits on the Nature Conservancy's board.

Penner has emerged as the Waltons' leader in education efforts. She attended her first board meeting at age 12 but became passionate about K-12 when, as a freshman at Georgetown, she started tutoring high school kids on probation at D.C.'s public schools. She was shocked. "There were no safe places for these kids, certainly not in school. It was amazing to me that they stayed in school given the circumstances," recalls Penner. "I was helping a 17-year-old who didn't read at second-grade level. I asked him, 'What do you do when called on in class?' He said he acts out."

Penner was nearing graduation, in 1993, just as the family foundation was formalizing. She pitched in, reaching out to Waldemar Nielsen, best known for his influential tome, *The Big Foundations*. At his recommendation she went to New York City to work with several individuals and institutions, including education expert Edward J. Meade Jr., a veteran of the Ford Foundation. She also interned at the Aaron Diamond Foundation, one

of the first supporters of AIDS research, and at the Rockefeller Foundation, where she got to do a three-week stint in Zimbabwe. "We were trying to figure out our choices," recalls Penner. "Learning by doing, which was my grandfather's approach."

The Walton Family Foundation was formally established in 1994, with Penner as its first program officer. She worked closely with her uncle John Walton, who was then leading their education work. One of its earliest grants funded curriculum development. Another went to Teach for America to send teachers to the poverty-stricken Arkansas Delta. That group has since gotten \$93 million from the Waltons, making it the single-biggest recipient of the family's funds.

As for Penner, she eventually headed to Stanford, where she conducted education-related research. (She had originally planned to get her doctorate, but graduated with two master's.) In one study she did qualitative analysis on how county-based centers provided math and science support to district schools and teachers. She also helped analyze the afterschool curriculum for middle and high school students in

San Francisco's high-poverty areas.

She might have taken a more low-key role had it not been for the sudden death of her uncle John in a 2005 plane crash. "We were shocked and concerned after he passed away," says Jed Wallace, chief executive officer of the California Charter Schools Association. "But I saw quickly that Carrie herself was quite formidable. She is the anchor of the Walton family after the passing of her uncle."

Based in Atherton, Calif., Penner has a schedule that balances school visits (she tries to get into classrooms

twice a month), conferences and her board work (she sits on six, all education-related). The latter has helped her form strong alliances with other charter-friendly philanthropists, including Gap heir John Fisher (see p. 86) and Netflix's Reed Hastings. This August, when a KIPP conference overlapped with a family trip, she sacrificed part of her vacation. "This is what she is passionate about," says her husband, Greg. "It is what really gets her fired up."

THE WALTON FAMILY gets a fair amount of criticism for the amount of philanthropy it has undertaken. Not unjustified. The total numbers are massive—at least \$5 billion over the last 25-odd years. But as a percentage of their 12-digit fortune, it's a pittance—not much more than what the average middle-class family gives away as a share of annual income, much less net worth. And that seems to even run against what Sam Walton himself intended. In his autobiography he talked about giving away a number at least equal to "our share of the family assets" to nonprofit organizations over time, which, even if read to exclude the \$100 billion-plus eventually allocated to his children,

would equate to more than \$28 billion today.

Penner frequently invokes Sam Walton's legacy. "My grandfather believed so strongly in opportunity and the power of the American Dream. He would often say there is no limit to what ordinary people can accomplish when given opportunity, encouragement and the incentive to do their best." She thus seems keen to make a dent against her grandfather's promise. Just before Thanksgiving the family gathered in California to finalize a five-year plan for their philanthropy. A key part of it: stepping up their education efforts.

Specifically, Penner has "evolved a bit" beyond choice as a panacea. The new mantras are accountability and reach. While charter school growth has been explosive, the results are uneven. According to a major Stanford study, 25% of students in public charters outperformed local school districts in reading and 29% outperformed in math—but 19% and 31% did worse respectively (though those numbers are better than four years ago).

Thus, choice without improvement doesn't achieve much. Penner's new platform will make laggards more accountable and shut them down if necessary. She's already taken strides in this direction. Two years ago the Waltons gave \$5.2 million to the National Association of Charter School Authorizers to make standards tougher—206 schools have since closed. The Schumpeter-like goal by 2017 is to close another 700 while paving the way for 2,000 new ones. "A number of folks shied away from the problem of underperforming schools," says California charter head Wallace. "Carrie's been among the most vocal and assertive on this issue in the country."

In terms of reach, Penner knows that even when performing at their very best, these schools teach less than 6% of public school children. Her new strategy will be to take on entire cities. There's already been an emphasis on places like New Orleans and Washington, D.C., where almost half the kids are in charters. The new five-year-plan will go further—expect the Waltons to soon announce two to four midsize "proof point" cities with high poverty rates where they will work with on-the-ground partners to support students in and out of the school setting. The goal: make sure "every child is being well-served within that community." Because this requires buy-ins from major stakeholders, they'll start with cities politically inclined to support such efforts.

Other new ideas include expanding help for students who don't grow up in English-language households and for special education students (neither group has been served well by public charters). After that Penner hopes to focus on foster children and kids with criminal records.

Not simple problems. And Penner, with decades of productivity ahead of her, promises she's in it for the long haul. "There are thousands of areas to work on that we're grappling with," says Penner. "We're trying to incentivize broader choices and a diversity of models. This is hard work, and we don't have all the answers."

## The Biggest Test in Public Education

THE WALTONS ARE ABOUT TO PARTNER WITH ENTIRE CITIES. GEORGE WEISS IS SIX YEARS AHEAD OF THEM. BY NATALIE ROBEHMED

s he limps out of McKinley High School in Buffalo, N.Y., George Weiss is in pain. Over the last hour he has toured the school's greenhouse and fish farm, answered a Q&A with 35 teenagers, held a 6-footlong bull snake and sat in on an American history class, all with a fractured heel. "The doctors told me not to walk more than four blocks," he says, easing his 6'1" frame into the passenger seat of a black SUV. "But what can you say to a principal who wants to show you her school?"

Weiss is not in the habit of saying no. His nonprofit, Say Yes to Education, is, as the name states, all about saying yes. Yes to afterschool tutoring, summer programs, mental health counseling and services for families. And yes, ultimately, to paying for college for any kid in its program who graduates from high school. To date 65,000 kids have gotten the Say Yes support-and-guarantee treatment in 106 schools in six cities. Thanks to its scholarship program, which offers free tuition to over 140 partnering colleges, more than 5,300 students have received degrees, tuition free.

That's the return from roughly \$265 million that Weiss, a 71-year-old fund manager, has given to this initiative over the past 27 years. But getting to play Santa Claus at individual schools, though satisfying, doesn't really scale. So Weiss is funding one of the more interesting experiments in education right now: Can such a suite of interventions work if applied on a citywide basis?

**WEISS' OPERATION MOVED** into Syracuse, N.Y. (pop. 145,000) in 2008, its first entire school district. Then to Buffalo (pop. 259,000), the fourth-poorest major city in the U.S., in 2012. He's about to announce that Say Yes is adding two more cities, which could raise the number of children in the program to some 200,000.

The key for Weiss is buy-in, or as he calls it, "no political bulls--t." How it works: Before giving any money, Say Yes requires city, county, government, school boards,



George Weiss' Say Yes has put more than 5,300 low-income students through college.

teachers unions and private donors to all work together. The local partnership then agrees to pay for a longer school day and for one social worker for every 250 students. Other services include free legal clinics inside the schools for families and college-admissions coaching. Say Yes also pays for an electronic student monitoring system to follow kids' progress, making note of attendance, behavior and academic progress to ensure every student stays on track. Then comes the payoff. If you go to school in Syracuse or Buffalo and your parents earn less than \$75,000, you are eligible for free tuition at most of the 70 private colleges—more than 30 added in the last 18 months—that have agreed to partner with Say Yes. Weiss and other local donors pay the tuition for any Say Yes student who goes to public university in New York State.

The son of Jewish immigrants who fled the Nazis for the U.S. in 1939, Weiss grew up poor in Brookline, Mass., bussing tables at age 11. He was working at a hotel coffee shop when a Boston University professor advised him to attend the University of Pennsylvania's Wharton School, which he did, paying his way with loans and savings.

It was at Penn that Weiss discovered his philanthropic inspiration. As a sophomore, his fraternity hosted a Christmas party for 12 underprivileged kids of Irish and Italian descent. Weiss befriended the gang, known as the 12 Apostles, by playing pool and basketball with them. After a few years as a Wall Street broker he returned to take them to lunch.

"We talked about their siblings in jail, sisters getting pregnant," Weiss recalls. "Yet all 12 graduated high school. And one of the kids turned to me and said, 'George, we couldn't look you in the eye without graduating." The first school he adopted, of course, was in Philadelphia.

He now has entire cities of kids who must look him in the eye. So is it working? His myriad schools adopted since 1987 have shown consistent growth. At the original school he worked with, Belmont in West Philadelphia, 62% eventually graduated from high school roughly double the rate before Say Yes got involved. Yet half of the female students became teen moms and 20 students altogether were convicted of felonies, more than graduated from four-year colleges. ("The drug dealers steal your best math kids because they can do the numbers," Weiss laments.)

Buffalo is beginning to see results: According to the New York State Department of Education, in 2013 the city's high school graduation rate leapt to 56%, up 8.2 percentage points in one year. In 2012, 43% of Buffalo children achieved passing or advanced grades in the state's integrated algebra Regents exam; by 2013 that number had risen to 49%. Before the first year of Say Yes college scholarships

in 2013, just 57% enrolled in postsecondary education—now that figure is up to 66%. "With this great partnership, in this community there is no young person that can't get a higher education," says Buffalo Mayor Byron Brown, who has committed \$1.3 million of city money to Say Yes.

In Syracuse there have been financial issues. Say Yes has spent more than \$29 million there so far-or \$1,380 per student—while the city, county and state pledged to basically match that. But that latter promise was strained by budget cuts in 2010, requiring local authorities to reallocate funds. Say Yes provided a consultant who developed budget recommendations that cut things like high school study halls and smaller class sizes but kept counseling and support initiatives.

Still, the kids seem to benefit. The high school graduation rate has gone from 49% in 2008-09 to 52.9% in 2013. Back in 2008 only 29% of Syracuse children achieved passing or advanced grades in its algebra Regents exam; by 2013 that number had risen to 50%.

Skeptics remain. "Has it turned our schools around? No, not at this point, and it's far from a panacea," says Kevin Ahern, president of the Syracuse Teachers Association.

"The problem is, I can't afford to do it all myself, even though my ex-wife thinks I have a huge amount of money," says Weiss, who provides the vast majority of Say Yes' financing. At the end of the day, as his personal contribution approaches \$300 million, he's conducting an extremely expensive and important field test that ultimately will require others to apply the lessons nationwide. "I sometimes get up in the middle of the night," says Weiss, "because I still feel like I'm not doing enough." B

## America's Education Moon Shot

FORBES CHALLENGED EXPERTS TO SINGLE OUT FIVE BIG IDEAS THAT COULD MAKE U.S. SCHOOLKIDS TOPS IN THE WORLD. THEN WE QUANTIFIED THE COSTS AND BENEFITS. BEHOLD: AN ROI-DRIVEN TURNAROUND PLAN FOR OUR CHILDREN (WITH A \$225 TRILLION DIVIDEND). BY RANDALL LANE

reak down any political discussion of education policy and you'll get the kind of rhetoric typical of a wealth manager. The need to *invest* in our kids. The untapped *resource* of our young minds. Children as our greatest *asset*.

There's a reason, of course. When you look at massive public spending areas, defense keeps us safe and health care keeps us alive, but it's education alone that has the promise of a numeric return on a collective investment. What's missing from all the blathering, however, are actual numbers. As in, exactly what should we be investing in? And if we did, how much specifically would society gain from it?

With that in mind, FORBES sought to spur debate by quantifying the seemingly unquantifiable. We set out to determine the costs and benefits of taking U.S. schoolkids from their middling global rankings to top five in the world, as measured by math scores and rates for high school graduation, college entry and four-year college completion.

This effort brought together an all-star lineup of education policy experts, who identified five policies that, if fully implemented, could each vault results into the top five (and if undertaken together, would surely take us to number one): teacher efficacy, universal pre-K, Common Core standards, blended learning (incorporating technology into how students are taught) and school leadership (training and empowering principals). Robin Hood Foundation and Tudor Investment founder Paul Tudor Jones volunteered to underwrite their efforts, though neither he nor FORBES had any hand in the results.

There's no other way to put this: The resulting numbers were big. *Really big*. The investment required to implement all five would run somewhere in the neighborhood of \$6.2 trillion, spread over 20 years. Or \$310 billion a year in today's dollars. And the payoff, as calculated by factoring in all those additional, better-skilled high school and college graduates on our national GDP? Almost \$225 trillion, spread over an 80-year time horizon, which incorporates an entire generation's professional achievement.

Some words on methodology: The research was overseen by David Steiner, the dean of Hunter College's School

of Education and New York State's former education commissioner, and his talented colleague Ashley Berner. They assembled the top specialists in each area, who were asked to stretch their comfort zones and estimate the costs and educational impacts using the best data available. They did not, however, come up with the total returns, or the ROI. For those we used a formula based on complex modeling by Stanford's Eric Hanushek that correlates the effect each policy would have on math scores to long-term economic performance and structural economic changes.

There are, of course, numerous assumptions in this exercise, from the political (school leadership gains would require new collective bargaining agreements in many states) to implementation (initial forays into universal pre-K have produced results well short of our expectations). But we did encourage the researchers to be conservative in their approach. The blended-learning assumptions forecast none of the personnel or textbook cost savings that would almost surely come from having students learning in part via online tools. Teacher efficacy focuses solely on recruiting great new teachers, versus removing lousy ones. And so on.

It's also important to note that the ROI and the cumulative return are not the same thing, since the former is based on the investment required while the latter deals with total economic benefits. Regardless, both produce striking forecasts. If you were a for-profit investor, you could discount these findings as much as you want, and you'd still be falling over yourself to invest.

So what's stopping us? To find out, we then convened a roundtable of top leaders from the four key constituent groups: the federal government (represented by U.S. Secretary of Education Arne Duncan), state government (New York Governor Andrew Cuomo), the teachers unions (American Federation of Teachers President Randi Weingarten) and local school boards (D.C. public schools chancellor Kaya Henderson).

Their dialogue (see p. 88) was lively, with more consensus than a casual observer might expect. "We should move full speed ahead and scale on all five," said Duncan, echoing the group. As our kids could tell him, the math is overwhelming.

### COMMANON CORE/COLLEGE READINESS

20-YEAR INVESTMENT: \$185,405,583,974

80-YEAR RETURN: \$27,706,486,307,918 NET GDP GAIN: \$27,891,891,891,892

NORMALIZED ROI:149X

## TEACHER EFFICACY

20-YEAR INVESTMENT: \$4,836,667,408,016

80-YEAR RETURN: \$59,663,332,591,983

NET GDP GAIN: \$64,500,000,000,000

NORMALIZED ROI: 12X

### UNIVERSAL PRE-K

20-YEAR INVESTMENT: \$1,101,685,354,048

80-YEAR RETURN: \$37,249,665,997,303 NET GDP GAIN: \$38,351,351,351,351 NORMALIZED ROI: 34X

#### BLENDED LEARNING

20-YEAR INVESTMENT: \$44,336,117,907

80-YEAR RETURN: \$33,077,285,503,715 NET GDP GAIN: \$33,121,621,621,622 NORMALIZED ROI: 746X

## SCHOOL LEADERSHIP

20-YEAR INVESTMENT: \$10,988,639,647

80-YEAR RETURN: \$61,002,524,873,866 NET GDP GAIN: \$61,013,513,513,514

NORWALIZED ROI: 5,551X

#### TEACHER EFFICACY

WHAT THIS IS: Attract top college graduates to the profession, measure their effectiveness and retain the good ones.

HOW WE ACHIEVE THIS: Salaries. Specifically, make teaching a highly compensated profession that mirrors its role in society and attracts top college graduates. A major McKinsey study estimates that raising teacher salaries by 50% would mean that a majority of teachers would come from the top third of college graduates. Right now it's a paltry 23%. Efficacy would solely be derived from student outcome data.

Investment: \$4.8 trillion Return: \$64.5 trillion Adjusted ROI: 12x

RESEARCHER: Eric Hanushek, Senior Fellow, Hoover Institution, Stanford University



PHILANTHROPIC ADVOCATE

#### Larry Robbins

SOURCE OF WEALTH: Hedge funds (estimated net worth, \$1.7 billion)

ORTS TEACHER EFFICACY: Board Member, Robin Hood Foundation; Chair, Relay Graduate School of Education

SSION POINTS: "All four of my boys play hockey. We have a better national development program to get 20 people to raise a gold medal than we do a national development program to develop teachers in the United States.

'Instead of teaching the theory of education, let's teach the practical education training tools, and let's have a master's degree program where teachers teach teachers and literally relay those skills from one generation to the next. Identifying who those elite teachers are, put a jersey on them to give them some status so that when they walk into a room they aren't just a teacher from XYZ school, but a member of USA Teaching. A master teacher, the highest level of status as recognition of their peers and called to the highest calling, which is to then convey those lessons.

'If we want to have an economic incentive, one fairly blunt instrument: Just pay everybody more. It's very expensive, but nonetheless it would have some great effect. Or no federal income tax for high-performing teachers or high-performing students that chose teaching. That would cost less than our subsidies to agriculture, excluding food stamps. It would cost one-third of that which we are spending on wars. Should there not be a war for teachers?"

#### **UNIVERSAL PRE-K**

WHAT THIS IS: Guaranteed pre-kindergarten for every American. (Right now only 52% of pre-K-age kids attend.)

HOW WE ACHIEVE THIS: More than just building pre-K into every elementary school, our assumptions include teacher observation, coaching, curricular integration with the requirements of kindergarten and extensive professional development.

**Investment: \$1.1 trillion** Return: \$38.4 trillion Adjusted ROI: 34x

RESEARCHER: Robert Pianta, Dean, Curry School of Education, University of Virginia

PHILANTHROPIC ADVOCATE J.B. Pritzker

SOURCE OF WEALTH: Inheritance, investments (estimated net worth, \$3.4 billion)

HOW HE SUPPORTS EARLY EDUCATION: Pritzker Children's Initiative, Pritzker Consortium on Early Childhood Development

PASSION POINTS: "Many children arrive at kindergarten far behind their peers and not ready to learn, with poorly developed vocabularies and foundational skills, such as the ability to focus, to pay attention, to control impulses, and learn from teachers and peers. You can put them in a good kindergarten classroom, but too often they slip farther and farther behind their peers. Ninety percent of brain development occurs in the first five years of life, with most of that occurring in the first three years. That means you'd better not mess up those first few developmental years—because, if you do, it's almost impossible to recover.

"Look at the cost to society: At-risk children who do not get high-quality early child care, early education, are 25% more likely to drop out of school, 40% more likely to become teen parents, 50% more likely to be placed in special ed, 60% more likely not to attend college and 70% more likely to be arrested for a violent crime. When you put all those stats together, I can guarantee you that if we neglect those children, they're 100% more likely to cost American families a lot of money and have more tragic results.





## CHARLIE STATES FOLLOW.

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#### SCHOOL LEADERSHIP

WHAT THIS IS: Improve outcomes by empowering—and holding accountable—school principals to deliver educational results.

HOW WE ACHIEVE THIS: Reform state laws to allow principals to act like any other division head, including hiring and firing and managing budgets. Raise principal salaries by 26% to attract higher-level talent. Create principal training academies—a de facto executive M.B.A. for school administrators.

**Investment: \$11 billion Return: \$61 trillion** Adjusted ROI: 5,551x

RESEARCHER: Paul Hill, Founder, Center on Reinventing Education, University of Washington Bothell



PHILANTHROPIC ADVOCATE John Fisher

SOURCE OF WEALTH: Inheritance, Oakland A's (estimated net worth, \$2.7 billion)

HOW HE SUPPORTS SCHOOL LEADERSHIP: Chair, Charter School Growth Fund and KIPP Foundation; Special Advisor, Fisher Fund

PASSION POINTS: "Our main focus as a foundation is on the replication of high-performing charter schools. My father grew up in San Francisco, going to all public schools and yet sent his kids to all private schools and concluded that, unless we could do something to have a positive impact on what he called the 'know-nots,' that we were going to have a very difficult time as a country. In the late '90s, he saw a video from 60 Minutes about of a couple of young teachers who had started KIPP, 'Knowledge Is Power Program.'

"My father was all about replication—he had started the Gap in 1969 and had opened a few stores since then, so it's what he felt comfortable doing. So he was with these two founders, and they said, 'Well, it's all about replicating leadership like us. We need to find and develop more people like us who can go and run schools.' And he said, 'Well, that sounds like a great idea.' And they came up with a program that we call now the KIPP Summer Leadership Program, and the Fisher Fellowship part of that was to train future leaders for our KIPP charter schools. KIPP in 2000 had 2 schools, and this fall we will have 162 schools educating 58,000 kids in 18 regions."

#### **BLENDED LEARNING**

WHAT THIS IS: Arming students with computers and delivering rote lessons in part through digital media, personalized and optimized to individual needs and pace, allowing teachers more value-added.

HOW WE ACHIEVE THIS: National broadband coverage, computers for every student and training and coaching teachers and schools on how to integrate online learning within a brick-and-mortar school.

Investment: \$44.3 billion **Return: \$33.1 trillion** Adjusted ROI: 746x

RESEARCHER: Michael Horn, Executive Director for Education, Clayton Christensen Institute

PHILANTHROPIC ADVOCATE

#### Fred Wilson

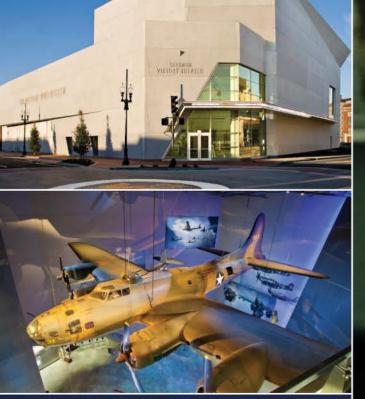
SOURCE OF WEALTH: Venture capital (oversees \$1 billion)

HE SUPPORTS BLENDED LEARNING: Board Member, DonorsChoose.org

PASSION POINTS: "I am a technologist. But blended learning is not really about technology. Blended learning is about teaching. It's a repudiation of the one-size-fits-all model that we've used for the past century here in the United States, with a teacher standing up in front of the classroom, 'Womp! Womp! Womp! Womp! Womp! Womp! and the kids in the classroom snoring, right? That doesn't work. Blended learning changes the way classes are designed, the way schools are designed, the way that scheduling is designed, the way teaching is designed and leveraging technology to make that all possible in a way that's actually cost effective, so that we don't radically increase the cost of education.

"Here's the big idea: The FCC has a program called E-Rate. They basically tax the telecommunication industry, and most of that money over the next 15 years will wire up our schools, Wi-Fienable our schools and give them the capability to do this kind of thing. If we could raise \$1 billion to \$2 billion—that's all it's going to take, essentially loans to the schools—we could accelerate all that money, so that it could get spent in the next three or four years. There's a nonprofit called the Education Superhighway that's committed to doing this. We could really make a difference."





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How do you thank the more than 16 million Americans who fought for your freedom – your father, mother, uncle or grandparent who went "over there" so we could all be safe "over here?" You give to The National WWII Museum in New Orleans, where the legacy of these Americans will live on. TripAdvisor recently named The National WWII Museum number 14 in the "Top Museums in the World." With your contribution, this monument to the heroes of WWII will be even better.

The National WWII Museum's capital campaign, The Road to Victory – A Vision for Future Generations, will raise funds to tell the entire story of the American experience in WWII, and help us fulfill our mission to pass on the ideals of courage, optimism and sacrifice to future generations.

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Visit www.roadtovictorycampaign.org to get involved or learn more.



#### COMMON CORE/COLLEGE READINESS

WHAT THIS IS: Creating high national standards to ensure collegeready, globally competitive graduates.

HOW WE ACHIEVE THIS: Recent steps are preliminary. New instructional materials, assessments and professional development help ensure success. While Common Core has critics on both extremes of the political spectrum, those in the sensible center rightly view high national standards, coupled with tools to achieve success, as a no-brainer.

Investment: \$185.4 billion Return: \$27.9 trillion Adjusted ROI: 149x

RESEARCHER: Patrick J. Murphy, Professor, University of San Francisco; Senior Fellow, Public Policy



#### PHILANTHROPIC ADVOCATE Emma Bloomberg

SOURCE OF WEALTH: Inheritance (her father, Michael Bloomberg, is worth \$36.5 billion)

HOW SHE SUPPORTS COMMON CORE/COLLEGE READINE Chairman, Stand for Children, Leadership for Educational Equity

PASSION POINTS: "Essentially, Common Core is bringing our education system in line with the way the world works today—standards intended to help address America's lagging international tech scores, our inability to produce college and career-ready graduates and the growing inequality in educational opportunity, not just among socioeconomic classes but among states.

"Philanthropists need to rethink how we're engaging in these problems. So far I think we've done too little to engage families and teachers and to ensure that they have what they need to help kids succeed. Second, we have been too focused on trying to solve education through the sainted lens of charitable giving and not focused enough on the more gritty lens of politics. I'm increasingly convinced that in addition to funding great schools and great teachers, training programs and other educational interventions, we need to step up our political giving. We ask our elected officials to stick their necks out for our kids, and then we don't support them when our opponents try to tear them down. They need to know if they do what's right we'll be there to make sure they don't lose their jobs."

## Getting It Done

The U.S. Secretary of Education, the Governor of New York, the top teachers union chief and the D.C. public schools chancellor joined Robin Hood Founder Paul Tudor Jones at The Forbes 400 Summit on Philanthropy for a high-powered roundtable on how to implement these five ideas.

**PAUL TUDOR JONES:** We have, literally, the pillars of education in the U.S. with us today. Can you each tell us: Which of these five ideas do you think is the most important?

#### AMERICAN FEDERATION OF TEACHERS PRESIDENT RANDI WEINGAR-

**TEN:** The five big ideas are really big ideas, and you need to do them together with a real focus on equity. If done in isolation, they don't get done, and they have to be well managed. For example, we aren't going to be able to do Common Core unless we also prepare teachers to do Common Core.

D.C. PUBLIC SCHOOLS CHANCELLOR KAYA HENDERSON: D.C. has gone from being one of the lowest-performing jurisdictions to one of the most rapidly improving, in part because we are doing every single one of those five big things. If I had to choose the two most important—frankly, the quality of the teaching force and the Common Core curriculum.

**U.S. SECRETARY OF EDUCATION ARNE DUNCAN:** Those five are critically important; they are all mutually enforcing, can't do one without the other. We should move full speed ahead and scale on all five. I spent a lot of time looking at the data. Who is making the most progress? In a country that is moving far too slow, we have a small set of places-D.C., Tennessee, Indiana under Governor Mitch Daniels and very interesting in Hawaii—moving much faster than the rest of the country. What they all have in common is political leaders who are willing to take on the orthodoxy of their own parties.

**NEW YORK GOVERNOR ANDREW CUOMO:** You can't really pick among the five. I think you need all five because they do work together. There's a holistic, comprehensive nature to all five. If I would add one that hasn't been mentioned—disparity in education. We have some public schools that are extraordinary, we have some that are terrible. We have two education systems, and it's not public-private, it's rich and poor.

I think the secretary's point is right. We now almost take for granted the slowness of our implementation. The five points are right; it's eat well and exercise-it's good advice. We're not moving quickly enough to actually make change, and we're okay with it, and that's even a greater problem.

**JONES:** Of these five ideas, what can you control, what can't you control?

WEINGARTEN: Between Kaya and myself the impact is, how do you actually grow reform locally? You can think globally and do certain things globally, but how do you actually make it work locally? Because that's where the rubber hits the roads.

**HENDERSON:** As a superintendent I have lots of control, right? I can undertake blended learning. I can manipulate my budget. But, you know, it was

philanthropy that had a catalytic impact in pushing me to move blended learning across my district, with improving teacher quality—absolutely things that I could do by myself I was better when I did them with my union partners, funded with my government partners and supported by \$67 million worth of philanthropy.

**DUNCAN:** Three buckets: high standards, great teachers, great principals. We found obviously that federal mandates don't work well. Where we've had the most success is around incentives. And lots of carrots. Not mandate, not have sticks, but put money out there where we can to reward excellence—and that's a hard sell on both sides in Congress. They'd much prefer straight formula funding. So we're always fighting to have just a little bit of money to put out there as carrots.

**CUOMO:** My first two years I had a lot of nice ideas, and I suggested nice ideas and policies, and everybody smiled and waved and did nothing. Year three, I learned the magic, which is condition the funding on meeting our programmatic "mandate." And then everyone became a believer, because they wanted the funding. I learned the same lesson when I was in the federal government. So we, by law, condition funding on certain measures. We try to get teacher evaluation done the first couple of years. The localities weren't performing. Year three, I said, "Unless you do it, you don't get additional funding from the state." Ninety-eight percent compliance.

**JONES:** What should a philanthropist do to help take these big ideas and to help move the U.S. from 24th to top 5?

**WEINGARTEN:** We're starting to learn what works. We've got to align it, we've got to implement it well, but we need to work together.



**HENDERSON:** Government is never going to fund innovation, except this guy [points to Duncan]. But government funds the things that it already does, right? And so for me to fund interesting things in my school budget, it won't get passed. The philanthropic sector allowed me to do my innovative work and structured it in such a way that I had three years to live off of that funding, but then I had to take responsibility for it.

DUNCAN: Early childhood education should not be a Democratic idea. That should be a bipartisan idea, and it's becoming a bipartisan idea. Having high standards shouldn't be Republican idea. We should all embrace that. Having a common way of measuring success is just so basic and fundamental to all of your businesses—that's a radical concept in education. We need to get to that point of having a high bar and having clear ways of measuring how everybody is stacking up against that bar. Under No Child Left Behind, about 20 states dummied-down their standards, they reduced their standards. Why? To make politicians of both parties look good. It was terrible for children. Not one person challenged those politicians. Until [philanthropic leaders] and the broader citizenry hold politicians accountable, we'll continue to be mired in mediocrity.

**CUOMO:** Two separate ideas. First, do something specific—create your own model, achieve success and market a model of success. Second, government is the game here. That is where the power is, that is where the policy is made and that's where the funding is. Not-for-profits can do great work. I tease Paul Tudor Jones: Robin Hood, one great night, \$100 million. We spent \$22 billion on education in the state of New York. To influence that you have to be in the public arena. You have to be in the game.

This is a condensed version. The full discussion can be viewed at www.forbes.com/philanthropy/.

Formulas For Success

SIX OF AMERICA'S MOST INFLUENTIAL EDUCATIONAL PHILANTHROPISTS REVEAL THE MATHEMATICS OF REFORM.

REPORTED BY KERRY A. DOLAN, CHRISTOPHER HELMAN, LUISA KROLL AND MICHAEL NOER

PHOTOGRAPHS BY MICHAEL PRINCE FOR FORBES HAIR AND MAKEUP BY PIRET AAVA OF NEXT ARTISTS AND SARA CLEMENTE

Stephen Schwarzman, 67
NET WORTH: \$10.8 BILLION

**HOW HE MADE IT:** Private equity (Blackstone Group)

HOW HE IS GIVING IT AWAY: New York Public Library (\$100 million); Schwarzman Scholars (\$100 million)

CHINA CHAMP: It's a Rhodes-scholarship-inspired program to bring hundreds of top students (45% from the U.S.) to Beijing's Tsinghua University (the alma mater of China's current president, Xi Jinping, and his predecessor, Hu Jintao), where they will be immersed in the culture and earn a one-year master's degree. Schwarzman Scholars will be paired with a high-powered mentor—someone like Jack Ma, founder of Alibaba and China's richest man—and travel around the country. The program was announced in 2013, and the first crop will enroll in 2016.

"China is a core curriculum. It's not an elective course. And it certainly is not going to be an elective course for our children and our grandchildren."

THE NEW RHODES SCHOLARSHIP

200 elite students/year x €100 million + China

#### Michael Milken, 68 NET WORTH: \$2.5 BILLION

**HOW HE MADE IT:** High-yield bonds; finance (Drexel Burnham Lambert)

HOW HE IS GIVING IT AWAY: Milken Scholars (353 students to date); Milken Educator Awards (\$137 million); Mike's Math Club for disadvantaged kids; and the National Institute for Excellence in

THINK DECADES, NOT YEARS: Milken scholars get broad financial support and mentoring through college and grad school, even into the early years of their careers. Milken has been working on education for almost 40 years and estimates he's given away approximately \$500 million. His primary focus? Quality of teaching.

"Unfortunately, today the number one goal for those with the lowest 10% of SAT scores is to become a teacher. The challenge is: How do we get the most talented people back into the classroom?"



THE OSCARS OF TEACHING

2,600 teachers x \$25,000 bonus \$\$200 million for professional development

#### PHILANTHROPY PORTFOLIO

### Barry Sternlicht, 54 NET WORTH: <\$1 BILLION

**HOW HE MADE IT:** Hospitality (Starwood, W Hotels)

**HOW HE IS GIVING IT AWAY:** The Robin Hood Foundation

ROB FROM THE RICH: Since its founding by hedge fund billionaire Paul Tudor Jones in 1988, the Robin Hood Foundation has raised \$2 billion, earmarked exclusively for fighting poverty in New York City. All of that money goes toward the cause, since the foundation's ultrawealthy and influential board (a smattering of current members: Jacklyn Bezos, Larry Fink, Jeffrey Immelt, Emma Bloomberg, David Einhorn, Harvey Weinstein; Sternlicht is chairman) covers all the administrative and fundraising costs, including its superexclusive annual gala dinner. The foundation is known for being a pioneer in applying business metrics to social causes.

"If you are not healthy or you aren't sleeping well or you live in a battered home, you aren't going to get educated. So everything Robin Hood does, at the end of the day, is related to education and job training."

**ROBIN HOOD ARITHMETIC** 

\$2 billion - \$0 fundraising and administrative costs = 100% donor efficiency



















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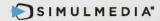
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**HOW HE MADE IT:** Oil and gas (Kaiser-Francis); banking (Bank of Oklahoma)

HOW HE IS GIVING IT AWAY: Kaiser Family Foundation (\$4 billion)

ROB FROM THE RICH: It's all about Tulsa and all about the children. His foundation has spent more than \$100 million on early-childhood education in Oklahoma, and it also supports programs to get young moms off drugs, plus made a big recent gift of \$200 million to build parks along Tulsa's riverfront.

"Rich, smart parents tend to have rich, smart kidsnot because it's genetic but because they can create a home environment and sensory stimulation that lower-income kids often don't get. With what we know, it is morally offensive not to act."



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## **DAVID BAAZOV** went from sleeping on Montreal park benches to an \$800 million personal fortune with a brazen bet on Internet poker. Now he gets to up the ante. By Nathan Vardi

arlier this year David Baazov walked into the Manhattan offices of the Blackstone Group, the world's biggest private equity firm, with an outrageous offer. At 33 Baazov was the little-known chief of Amaya, an obscure Montreal company with a loose handful of assets in the gambling industry. But he had big plans. With the backing of Blackstone's

credit division he wanted to stage the \$4.9 billion purchase of PokerStars, the world's biggest online poker company. Operating like he held all the cards, Baazov proposed what would seem to be a crackpot scheme. Despite Amaya's stock trading just under \$7 (all prices are in U.S. dollars), he wanted Blackstone and other investors to buy shares at nearly \$18 apiece and securities convertible into Amaya stock at about \$21.

If a CEO in the history of capitalism had ever managed to sell equity for such a sky-high premium, the top minds at Blackstone's credit group had never heard of it. They abruptly ended the meeting and threw Baazov out on the street. "We left the building, and my guys were having heart palpitations," says Baazov. "The whole time I am still negotiating with the sellers and saying, 'Hey, I am money good.'"

In the months that followed, Baazov corralled the deeply secretive owners of PokerStars, reluctant bankers and big-shot Wall Street investors—all while driving a hard bargain for himself and other Amaya shareholders. In August Baazov ended up buying PokerStars by selling approximately \$1.7 billion of Amaya stock for about \$18 and convertible preferred shares with a conversion price of about \$21 per common share. Blackstone's credit division, known on Wall Street as GSO, invested \$1 billion, its biggest-ever financial commitment in a single deal, getting shares at essentially an effective price of some \$15 apiece after Baazov threw in nearly free warrants for his most important financial backer.

With that one transaction Baazov is now the new king of online gambling, a near-billionaire player in a complex and high-stakes game, facing off against titans like Sheldon Adelson. The boldness of what Baazov has pulled off is stunning. Nobody—not even his own executives—thought Baazov could get Amaya, a publicly traded company with \$150 million in revenues, to buy Rational Group, an Isle of Man powerhouse with \$1.1 billion in revenues and a controversial history, in an all-cash deal that included Rational's PokerStars and Full Tilt Poker.

But Baazov somehow pulled it off, and his stock recently changed hands for \$33, returning more than 2,600% since he

took Amaya public in 2010. Baazov's 12.5% stake in the company is now worth \$800 million. "It is an audacious deal that shocked the industry and shocked the people who watch the company," says Robert Young, a financial analyst at Canaccord Genuity. "They went out and bought one of the crown jewels of online gaming for \$4.9 billion, and their valuation was much less than \$1 billion."

Whether or not he ultimately succeeds is still an open question, but Baazov's story is an untold saga of chutzpah, luck and pure perseverance. "The game of poker itself is like negotiating a transaction," Baazov told FORBES in his first extensive interview ever. "This was a really, really big-stakes game." And it's only just begun.

or a guy who won about as big as you can win in the deal game, Baazov says he's not much of a poker player. The son of a construction worker, he was born in Israel, and his Georgian parents moved him to Montreal at the age of 1. It was a tight-knit Modern Orthodox Jewish family with six children that tolerated Baazov's strong rebellious streak—for a while. A math whiz, Baazov was bored at school and at 16 told his deeply conservative parents that he was done with it. They responded as well as you'd expect. They kicked him out of the house.

Filled with pride and desperately wanting to start something, Baazov did not back down. For a while he stayed with a friend, but soon found himself sleeping on park benches and in Montreal's ubiquitous outdoor public hockey arenas, camping out in the penalty box to block the harsh winds. After more than two weeks on the streets in cold temperatures, Baazov used his brother's driver's license to rent an apartment. In time he made up with his parents and went on to make some early cash by selling packages of discount coupons for dry cleaning and clothing stores through the mail. Baazov eventually started a computer-reselling outfit in Montreal, renting a tiny office that maybe two people visited in the first five months. "Your conscience runs with your thoughts," says Baazov. "You are thinking, what am I doing?"

His big break came when he landed a contract to sell computers to Montreal's public library, expanding his operation into a \$20 million computer reseller over the next five years. "He could take apart a computer and put it together with his eyes closed," says Morden Lazarus, a Montreal lawyer who has known Baazov for years. "Like every Duddy Kravitz in this world, he wanted to be successful and for his family to be proud of him." At 25, and fearing the direct computer sales



model, he abruptly sold the company after losing a bid to Compaq, one of the companies he distributed for, to supply computers to the City of Montreal.

Burned by hardware, Baazov decided in 2005 to get into software, though he wasn't much more focused than that. He brought in some developers and to generate revenue they built an electronic poker table that could be sold to casinos and cruise ships, essentially allowing people to play poker without a human dealer. He dubbed the company Amaya, a play on Avaya, the computer networking company where the sister of his chief financial officer worked.

With about \$6 million in revenue, Baazov took Amaya public for just under \$1 a share in 2010 on the Toronto Venture Exchange, Canada's penny stock market, raising nearly \$5 million. In preparing for his IPO, Baazov, then 29, secured a dinner meeting with former NATO commander and presidential candidate General Wesley Clark, who was a proponent of gambling-generated tax revenue, particularly in small countries. He returned from the Washington dinner and told his staff that General Clark would join the board.

"Did he say he was joining?" his CFO asked him. No, but Baazov was certain he would. "He is the ultimate optimist," says Marlon Goldstein, Amaya's general counsel. "His glass is always half full even when it's fu\*\*ing crumbling." General Clark signed up and remains on Amaya's board.

Given this kind of bet-the-house bullishness, it was perhaps inevitable that Baazov would set his sights on the Wild West of online gambling. Because of its close proximity to the Kahnawake Mohawk Territory, which asserts sovereignty and has long hosted online gambling servers for offshore companies, Montreal has been an online gambling hub. Running a tiny, publicly traded company, Baazov bought cheap and out-of-favor assets at steep discounts, like Chartwell Technology and Cryptologic, which provided casinogame software to online operators. Baazov also snapped up Ongame, a maker of online poker software. Critics couldn't figure out what he was up to, but it was simple: He was building a story and a stock.

In 2012 he purchased Cadillac Jack, a slot machine maker, for \$177 million.

Now Baazov had cash flow, some \$36 million a year. He also had a relationship with Blackstone's GSO credit division, the largest financial backer of the Cadillac Jack purchase, raising \$110 million in debt for the deal. Amaya's stock soared from \$3.50 in November 2012 to more than \$7 by the end of 2013.

fter buying Cadillac Jack,
Baazov told his CFO, Daniel
Sebag, that he had his eye on
much bigger prey. He wanted to buy
Rational Group, the private, secretive
owner of PokerStars. "Please do not
put even one minute of your time in
that," Sebag told him. It seemed impossible. Rational was not only many times
larger than Amaya, it was known to be
insanely profitable. Meanwhile, Amaya
was losing money.

But Baazov smelled opportunity. PokerStars had been essentially founded and run by Isai Scheinberg, a Canadian with Israeli roots, and his son, Mark, who legally owned most of the company. Despite PokerStars' financial prowess, the owners had run into legal problems for continuing to offer online poker in the U.S. after

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#### DAVID BAAZOV

Congress passed the 2006 Unlawful Internet Gambling Enforcement Act.

Federal prosecutors shut down PokerStars' U.S.-facing website in 2011, sued the company and indicted Isai but not Mark-Scheinberg for operating an illegal gambling business. Isai Scheinberg and the company always denied wrongdoing and claimed they were operating legally in the U.S. The company ended up paying \$731 million in a complex settlement that included acquiring its main rival, Full Tilt Poker, but Isai Scheinberg, still under indictment, remained in the Isle of Man, and PokerStars was having trouble getting back into the U.S. after three states— New Jersey, Delaware and Nevadaopened up online poker following the federal crackdown. Baazov figured the Scheinbergs might be ready to move on.

When Baazov first floated the idea of buying PokerStars to the Scheinbergs, they didn't take him seriously. They hardly knew who Baazov was. At one point early on Baazov traveled to the middle of the Irish Sea to meet with the Scheinbergs, where they told Baazov they were not interested in selling and in any event couldn't see how he could come up with the money to buy them out. Undaunted, he phone-stalked them throughout the first half of 2013. "I was quite persistent," says Baazov. (The Scheinbergs declined to comment for this story.)

In the summer of 2013 the Scheinbergs decided to call Baazov's bluff. They told him they would start to negotiate if he could provide a \$3 billion commitment letter from a financial firm. This was the kind of news Baazov had been waiting to hear. He asked the Scheinbergs to send over some financial information about the company. The answer he received astonished him: No.

"I got good news and bad news," Baazov told his troops. "He wants a \$3 billion letter, but he is not willing to give us any information." His small executive group couldn't see the good news, but Baazov explained it to them. "Any seller who is asking for a \$3 billion commitment without providing any financial information whatsoever is a very reclusive seller who will only want to deal with one buyer," Baazov said. "We will get exclusivity."

Baazov leaned on his relationship with Blackstone's GSO division to provide it. Baazov had impressed GSO, consistently hitting the performance figures he had outlined for Blackstone after its GSO division backed his purchase of Cadillac Jack and later refinanced its debt. It was enough to get the letter. "He delivered on everything, and we were impressed with that," says Bennett Goodman, cofounder of Blackstone's GSO unit. The letterhead impressed the Scheinbergs. In fact, it seemed too good to be true-they asked to confirm with Blackstone themselves. "It was like them telling me, 'Not to say that you guys forged it, but we got to talk to them directly," says Baazov.

aazov caught a break in the fall of 2013, when New Jersey regulators moved to suspend Poker-Stars' application for a gaming license because of Isai Scheinberg's continued association with the company just as online gambling was launching in the state. PokerStars had worked hard to get into the biggest state to have regulated online gambling, and its owners were frustrated. They were ready to do a deal.

In December 2013 Baazov returned to the Isle of Man, where PokerStars had prepared a management presentation that included, finally, PokerStars' financial figures and customer data. PokerStars had developed a virtual stranglehold on the online poker market, with 89 million registered users, some 5 million of whom are active monthly. And since its servers seamlessly made money, raking a small cut of each digitally dealt pot, it was a literal cash machine, making \$417 million annually on \$1.13 billion in revenues. "Everybody walked away so impressed," says Baazov. "We knocked off a lot of the misconceptions—it was a phenomenally well-run company."

By the start of 2014 Amaya and Rational had signed a letter of intent that outlined the \$4.9 billion price tag. But even though he had a deal, he had no money. With the same stubbornness that landed him on a frozen park bench in Montreal, he visited Blackstone with his outrageous offer to them. And once again that stubbornness landed him out on the street.

He was undeterred. Baazov continued to press Blackstone, selling them on the huge profits he unveiled once he had his hands on secretive PokerStars' books. Blackstone was also swayed by other data it found in the due diligence process, like the stickiness of the customer base-60% of the revenue was being generated by players who registered at PokerStars between 2001 and 2010. An audit conducted by Blackstone's cybersecurity chief, which PokerStars passed with flying colors, helped, too. Little by little, Baazov won Blackstone over—agreeing, for instance, to give it warrants that let it buy 11 million common shares of Amaya at just a penny each (he did not, however, give Blackstone a board seat).

By the summer he finally convinced Blackstone's GSO to pony up \$1 billion and buy Amaya shares for the huge premium he was demanding, while other investors, including BlackRock, the world's largest asset manager, also bought a large tranche of shares. For the remaining \$2.9 billion Baazov and Blackstone turned to banks-including Deutsche Bank and Barclays. But there had never been as big a bank loan made against online gambling assets before. At the outset one of the banks looking at the deal figured there was less than a 10% likelihood it would fund the transaction, says one of the people involved.

But the numbers—and the sales pitch—proved irresistible. In the end the banks lent the full amount, and Amaya bought Rational Group. Mark Scheinberg, just turned 40, walked away with a net worth of \$4.1 billion, making him richer than Steve Wynn,





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On Nov. 2-4 Forbes convened some of the best IT executives, venture investors and entrepreneurs to redefine the future of technology leadership and the role of the CIO. Chief information officers are in the middle of all the big changes in enterprise tech—cloud, mobile, social, cybersecurity—and the best of them nail the basics while looking beyond to create real value for their organizations. Those who came to the Summit got a master class in how these ambitious CIOs, call them CIO-pluses, jump ahead to become CEOs and COOs, or nab a seat on the board of directors.

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### ALL IN

EVEN WITH THE U.S. ALMOST COMPLETELY OFF THE TABLE, THE GLOBAL ONLINE GAMBLING MARKET WILL PROBABLY GROW BY 11.7% TO \$38.7 BILLION IN 2014. ONLINE POKER, HOWEVER, IS PROJECTED TO DECLINE BY 1%.



SOURCE: H2 GAMBLING CAPITAL

the man who remade Las Vegas.

And Baazov? He was the real winner. The deal closed on Aug. 1, two days before Baazov's 34th birthday. With just wit and will he'd turned his pennystock public company into a multibillion-dollar online gaming empire, with hardly a cent of his own money invested.

or all the rough negotiating and dealmaking thus far, Baazov is only now confronting his toughest challenges. First, he must somehow run the regulatory gauntlet that ultimately helped cause the Scheinbergs to hit the eject button. Meanwhile, the global online poker industry is in decline. And the U.S., once the world's biggest online poker market, remains largely closed for business. Only three states have regulated online gambling, and so far the industry's revenue results from the only meaningful one, New Jersey-about \$10 million monthly-have disappointed. Governor Chris Christie had predicted that the state would be reaping more than that in taxes alone.

For the online gambling industry

the U.S. remains a tough state-bystate slog with little chance of federal legislation that would bring back online poker's golden days. Baazov is still having trouble getting PokerStars into New Jersey, while regulation in the biggest prize, California, seems stalled.

Casino billionaire Sheldon Adelson isn't making things easier. The owner of Las Vegas Sands, the world's largest casino operator, calls online gambling "immoral" and told FORBES last year he would "spend whatever it takes" to ban it. He eagerly bashes PokerStars, and its checkered past, whenever he can.

Baazov is more diplomatic. "I think Sheldon is someone I respect and admire based on what he has built," says Baazov. "I don't believe that his arguments from a moral perspective hold weight."

The rest of the globe is also fraught with challenges, especially since PokerStars wants to convince regulators in places like New Jersey that it very carefully follows all laws in every jurisdiction. It has already abandoned several so-called gray markets, like Malaysia and Turkey, while Germany and Russia, especially key markets, are in flux.

The Amaya deal even puts Poker-Stars in a tricky situation in Canada, which has laws that technically ban such sites—something that it has never enforced for offshore sites. But it also never faced an industry giant whose parent company is based in Montreal. Baazov says he kept the Canadian provinces and regulators closely informed about the deal. "Obviously, we had to get a level of comfort before we signed," Baazov says without offering details. "We got comfort."

Baazov is coy about it, but a few provincial lawmakers have suggested that they want to see Canadian provinces get into business with PokerStars in a way that would make online poker a bigger tax revenue generator than it is currently.

This is the ace up Baazov's sleeve. PokerStars is the giant of online gambling, and all kinds of jurisdictions and politicians want a piece of its free-spending players. What else can Baazov sell them? The global online gambling industry will reach \$38.7 billion this year, according to H2 Gambling Capital—with poker making up only about 10% of the total. PokerStars recently launched casino games in Spain and within weeks grabbed double-digit market share. Full Tilt has now launched casino games in much of the world, and 30% of its eligible poker players have already given those games a try. Sports betting is next, and Baazov expects it to launch in certain markets by March 2015. His securities filings suggest he wants to eventually offer social gaming, while fantasy sports seems like a natural extension.

Baazov just needs to make sure he doesn't alienate his core customers. Some online players are already grumbling about recent changes at PokerStars, like higher rake fees of as much as 5% that PokerStars gets for hosting games and currency exchange fees of 2.5%. But Baazov is moving forward, cooking up his next deal. He has put Cadillac Jack up for sale and should make a good profit on the asset given the price other slot machine makers have fetched recently. He also just unloaded Amaya's Ongame unit.

Meanwhile, shares of Amaya continue to streak skyward, up another 17% in the past month alone, and Baazov stands ready to jump in other directions.

"My goal is that all of our gaming revenue is sub-50% of the company's revenue," says Baazov. "We are a consumer-tech-focused company. We didn't buy Rational because of gambling; we wanted it badly because it had 89 million consumers. I wouldn't call them players or gamblers—they are consumers." Whatever they are, they've been a very good bet so far.



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### **FORBES LIFE**

### **CARS**



Fiat has already benefited from spinning off its most valuable brand, but can the legendary Italian sports car company find a new gear on its own?

BY MARK EWING

ollowing a 23-year reign that elevated Ferrari from a decaying Italian sports car company to one of the brightest constellations in the automotive firmament, Ferrari Chairman Luca Cordero di Montezemolo was forced to step down in September after clashing with Sergio Marchionne, CEO of Ferrari's parent, Fiat Chrysler Automobiles (FCA), about the direction of the company and the once vaunted Formula One team. "Ferrari is now American," Montezemolo reportedly said on the way out, and he didn't exactly mean it as a compliment.

Weeks after Montezemolo's departure Marchionne made another major shift: After 45 years Fiat announced it would spin off Ferrari, offering 10% of outstanding shares to the public in the United States by next June. And with the stallion out of the barn, Marchionne had one more bombshell: Ferrari would be paying approximately \$2.8 billion (including profit distributions and debt transfers) to FCA, a stunning measure of Ferrari's balance sheet and FCA's weakness.

So what does independence mean for the legendary brand? Recent Formula One results aside,

Montezemolo's strategy for Ferrari was in high gear. Ferrari's road car program has posted record financial returns and achieved engineering excellence only Porsche and McLaren can approach. With a hard production ceiling imposed to ensure rarity and high resale values, Ferrari has just over 7,000 buyers each year, many of them purchasing a \$250,000 car merely to stay on the preferred clients list.

The first half of 2014 delivered records from the sale of only 3,631 vehicles, including revenues of \$1.6 billion (up 14.5%), net profits of \$158.4 million (up 9.8%) and growth of 13% in Ferrari's largest market, the U.S.

Fueling that success are high-profit offerings like the new topless F60 America. Loosely based on the V12-powered F12berlinetta but with an as-yet-undefined power train, the one-time-only release of ten \$3.1 million roadsters has already been sold, those commitments based purely on a full-scale maquette that promises Ferrari's unique blend of art, speed and an incomparable visceral experience.

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that may presage other Ferrari turbos, the 2015 California T is the company's new "volume" car, now a worthy gateway to Ferrari ownership. Its performance promises to wash away past criticisms of the 2008-14 California as a "lifestyle" vehicle. As an example of Ferrari's artistic delivery of thrills, the California T's complex, threepiece exhaust manifold is designed like a fine wind instrument to produce the operatic tenor expected of a Ferrari, not the dull, suffocated moan associated with lesser turbo engines.

Following its spinoff, Ferrari will continue to provide engineering and engine assembly services to its sister company, Maserati, which is also hitting ambitious growth targets. Without investment to expand capacity, Ferrari would be hard-pressed to provide similar services to Alfa Romeo beyond a low-volume sports car like the 2007-10 Alfa 8C Competizione. Potential expansion of engineering services may prove a lucrative adjunct to Ferrari's road car, racing and licensing programs, though combining engineers to create a cohesive team is a lengthy process that cannot be rushed without compromising quality.

Naturally, Ferrari cultists worry that after FCA has swept cash from the company's balance sheet and transferred FCA debt, Ferrari may be forced to expand annual production to turn more profit by satisfying demand in markets like China, a move that might diminish longterm valuations and rarity. Public statements by FCA executives-especially Marchionne-about adopting less costly construction techniques are another cause for concern.

Long-term value is an inextricable part of Ferrari's brand power. This past August, in Monterey, Calif., Bonhams auctioned a 1962 Ferrari GTO for a record-setting \$38 million. And despite being eclipsed in F1 recently by teams like Red Bull and Mercedes, Scuderia Ferrari has an estimated market value of more than \$1 billion.

Ferrari supporters, known as "Tifosi," hope for the formation of another dream team like the one built in the past decade around the most profound driving talent of our time, Michael Schumacher. With Schumacher behind the wheel and a noninterference agreement in place with Montezemolo, Scuderia Ferrari embarked on an unprecedented run, securing six Constructor titles and five World Drivers' Championships between 1999 and 2004. When Schumacher retired in 2006, the dream team dissolved; except for one driver's championship in 2007, the Scuderia has never recovered. Many hope Marchionne will agree to a new noninterference pact with the Scuderia.

For nearly 70 years Ferrari has been held safely-first in the hands of founder Enzo Ferrari, then in partnership with the Agnelli family, which founded Fiat in 1899. Unlike Lamborghini, which passed through a number of uninspired and even questionable owners before the VW takeover in 1998, Ferrari is perceived as sacrosanct, an Italian institution beyond the reach of interlopers and opportunists.

Chairman Marchionne declined an interview about the spinoff, but the Ferrari/FCA math is fairly straightforward. Piero Ferrari's family will retain its 10% stake in Ferrari. Fiat Chrysler Automobiles (FCA) owns the remaining 90% and will offer 10% to create a publicly traded market for Ferrari shares. Analysts expect the initial offering in 2015 to raise between \$700 million and \$1.2 billion, cash needed to fund development of FCA's Jeep and Alfa Romeo brands, and reduce debt loads incurred when Chrysler paid back government loans in 2011 and bought out the UAW Trust's ownership position early in 2014.

Promises for a healthy future should also be secured by the Agnelli-controlled Exor, an investment company that owns 30% of FCA and will maintain 30% of Ferrari, thereby creating a 40% bloc with Piero Ferrari, a formidable bulwark against a Ferrari takeover by an unwelcome third party. Though corporate responsibility to a range of shareholders is a new dynamic, this series of chess moves takes financial pressure off FCA to raise capital by selling Ferrari outright while also allowing FCA to maintain the perception of historical control of Ferrari in Italian hands.

Though Marchionne's intentions still remain veiled and his saddling of Ferrari with FCA debt is not promising, change at Ferrari will likely not be as radical as some fear. If the company can adhere to the stout principles of Montezemolo and earn its way out of debt, Ferrari should get back on track.

### TRENDING

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### **PERSON**

### **DIANE VON FURSTENBERG**

The legendary designer wrapped up 2014 in style: publishing a memoir (The Woman I Wanted to Be) and a coffee-table book (The Journey of a Dress) and starring in a new reality show (House of DVF).

### COMPANY

### **MAKR SHAKR**

Roval Caribbean launched a new cruise ship in November, Quantum of the Seas. that features a robotic bartender by Makr Shakr. Customers order drinks from a tablet.

### **LUXURY PET TRAVEL**

Would you really let your best friend fly cargo? Private-jet companies now offer pampered trips for pets, and businesses such as Sit n' Stay Global provide concierge services and devoted attendants when your fur flies.



FINAL THOUGHT



"Aerodynamics are for people who can't build engines." - ENZO FERRARI

## What Your Annuity Salesman Doesn't Want You To Know

What You Might Not Know About Annuities Could Come Back To Haunt You Before you put your hard-earned money into an annuity, or if you already own one, please call 1-800-695-5929 for a special report, *Annuity Insights: Nine Questions Every Annuity Investor Should Ask.* Written with *Forbes* readers in mind, it could help save you hundreds of thousands of dollars and untold financial heartache.

The vast majority of annuities are really complicated insurance policies that make it very difficult to fully understand the implications and unintended consequences. And once you buy into an annuity, it can be a very difficult and potentially very costly investment decision to reverse. That's why it is vital you "look before you leap" and ensure that you have "your eyes wide open" before you purchase an annuity. And if you already own an annuity, this free report is just as valuable as it can help you sort out the good, the bad and the ugly aspects of annuities.

### What You'll Learn From This Free Report

- The different types of annuities and the advantages and disadvantages of each
- Why annuities can be complex to understand
- What you need to ask an annuity salesman when evaluating his product
- The inflation risk, tax implications, estate planning considerations and typical annuity fees

### Don't Be Lulled By The Soothing Sound Of Guaranteed Income

Sure, guaranteed income, free from market volatility, has a lot of appeal, especially for people approaching or in retirement. But that guarantee can cost you big in commissions, fees, surrender charges, taxes and other costs. Plus, locking in a guaranteed income stream that doesn't take into account inflation can seriously erode the value of your cash flow. In our report, we'll show you how buying or staying in the wrong annuity could literally cost you hundreds of thousands of dollars in fees and lost opportunities.

### Stuck In An Annuity?

Because people often regret their annuity decision, Fisher Investments has helped many investors extract themselves from annuities. In fact, if you have a portfolio of \$500,000 or more, we may rebate some or all of your annuity surrender penalties. Rebates average over \$13,000.\* Please call for details and to see if you might qualify.

### **About Fisher Investments**

Fisher Investments is a money management firm serving successful individuals as well as large institutional investors. With over \$54 billion" in assets under management and with a track record of over 25 years in bull and bear markets, Fisher Investments uses its proprietary research to manage money for prudent investors.





If you own an annuity or if someone is trying to sell you one, I urge you to call for your free report. Annuities can lock you into low returns, complicate your tax situation, tie up your wealth and hit you with high fees. If you have an annuity, my team can help you decide if it is right for you. And if it isn't, we might be able to help you get out of it and even help you offset some of the annuity surrender fees.\*

This free report could save you from making one of the biggest investment mistakes of your life. And for owners of annuities, the free analysis could be a life saver.



Ken Fisher

- CEO and Co-Chief Investment Officer, Fisher Investments
- Forbes "Portfolio Strategy" columnist for 29 years
- Author of 10 financial books, including four New York Times bestsellers

Please hurry! This offer contains time-sensitive information.

Call today for your FREE report! 1-800-695-5929 Ext. A1063

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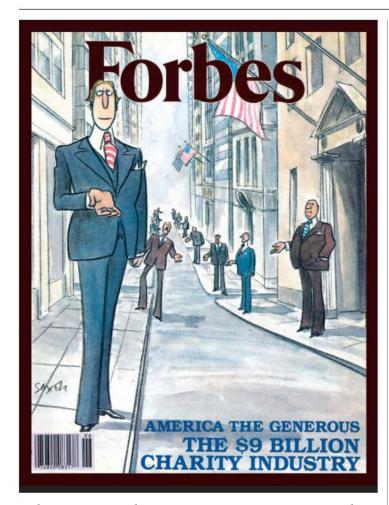












"When it comes to charity, Americans are not extravagantly generous these days. Perhaps they feel they are giving more than enough to the needy through the Internal Revenue Service. At any rate, last year, they indulged all their philanthropic feelings to the tune of little more than \$35 billion, 2.25% of their disposable income and about as much as they spent on liquor, cosmetics and movies."

-FROM THE FEB. 5. 1979 ISSUE OF FORBES

### OTHER THOUGHTS FROM THAT ISSUE:

**EARLY DEATH** "Averell Harriman, 87, was in Moscow to visit the gravesite of former Soviet President Mikoyan, his old friend and rival, who died at the age of 82. 'It was a great shock and disappointment to hear of his early death,' said Harriman,"

THE BOSS IN THE SLAMMER "Businessmen spent more time in jail for price-fixing in 1978 alone than in all the 89 years since the passage of the Sherman Antitrust Act. It amounts to a new occupational hazard."

### **ON PHILANTHROPY**

"Our lives are connected by a thousand invisible threads, and along these sympathetic fibers, our actions run as causes and return to us as results."

-HERMAN MELVILLE

"Business is about profit, yes, and it is about more than profit. At its best, it is about expanding the possibilities of humanity." -JON MILLER

"Share your blessings in whatever form they come and to whatever level vou have been blessed."

-JON HUNTSMAN SR.

"Everybody wants to save the earth; nobody wants to help Mom do the dishes."

-P.J. O'ROURKE

"A bone to the dog is not charity. Charity is the bone shared with the dog, when you are just as hungry as the dog."

-JACK LONDON

"So may the new year be a happy one to you—happy to many more whose happiness depends on you."

-CHARLES DICKENS

"What gets my goat is not being able to give somebody something you want them to have."

-TRUMAN CAPOTE

"So let each one give as he purposes in his heart, not grudgingly or of necessity."

-2 CORINTHIANS 9:7

"Your days are numbered. Use them to throw open the windows of your soul to the sun."

-MARCUS AURELIUS

SOURCES: ALL THE TROUBLE IN THE WORLD, BY P.J. O'ROURKE; THE CHIMES, BY CHARLES DICKENS; GOODREADS.COM; A CHRISTMAS MEMORY, BY TRUMAN CAPOTE; THE EMPEROR'S HANDBOOK, BY MARCUS AURELIUS; THE TIMES BOOK OF QUOTATIONS.



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